

KANSAS CITY SOUTHERN

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FOUNDED 1887

MICHAEL R. HAVERTY
CHAIRMAN, PRESIDENT AND
CHIEF EXECUTIVE OFFICER

June 28, 2004

Chairman Roger Nober
Surface Transportation Board
1925 K Street NW, Suite 810
Washington, DC 20433

RECEIVED
SURFACE TRANSPORTATION
BOARD
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OFFICE OF CHAIRMAN
NOBER

Dear Chairman Nober,

Thank you for your letter concerning the KCS's view of fall peak demand, our plan to meet that demand and our approach to communicating that plan to our customers.

While we know that the Board closely monitors our performance metrics, I would like to begin by pointing out that KCS's performance has improved continuously over the past year and that KCS is at or near the best performance level of the Class I railroads in each of the reported categories. This improved operating performance occurred even though we have experienced very strong traffic growth (more than 6% growth over the same period last year). Our metrics show that KCS has been effective in delivering committed service levels to customers while we handle their increased volumes.

We maintain close contact with our customers for a host of reasons, including gaining real time updates about demand. Based upon our customers' input along with that of our connections, including our shortline partners, and available forecasts of the U.S., North American and World economic activity, the outlook for most of our commodities is for four to five percent year-over-year growth during this year's peak period. Intermodal growth, however, is expected to be much stronger – in the range of 12-15 percent.

Our service goals for the next 120 days are to maintain our current high level of service with the potential for delivering a slight improvement. The elements of our plan to effectively service our customers have not changed recently, but reflect our objective of continuous improvement.

Tightly managing our operations is key to our service delivery plan. With the implementation of our MCS operating system, our managers have accurate and timely information to support their decision making in order to deliver the service sold to the customer but within a tight cost envelope. It is our people who are responsible for delivering the higher quality service.

We also have added capacity to our system since the first of 2004. We have:

- Acquired 52 locomotives (36 purchased and 16 leased) which represents an 11% increase in our road fleet; and have rebuilt 15 locomotives that were heavy bad order which, in total, represents a 14% increase in our available road locomotive fleet.
- Improved locomotive maintenance by implementing a number of enhancements, including condition-based maintenance.
- Standardized tools and procedures to improve the quality of locomotive and car repairs and the productivity of our employees.
- Initiated a program to monitor locomotive location, and crew and locomotive performance levels by equipping 37 locomotives with a complete GPS-based electronic monitoring package.
- Increased the availability and effectiveness of our End of Train (EOT) devices by:
 - increasing the number of radio repeaters to eliminate dead spots;
 - expanding the use of EOT pretest systems to reduce initial terminal delays;
 - beginning to take delivery of self powered EOT's (which eliminates battery-related failures and the associated train delays).
- Increased our line capacity on our fastest growing Meridian-Alliance route by:
 - adding three new sidings, with two more to be completed late this year or early next year;
 - making changes that allowed increased operating speed on 20% of the Meridian-Alliance route;
 - completing all maintenance on this route before the start of peak season.
- Rebuilt the switching leads and switches at Shreveport, to facilitate the flow of traffic through this hub yard.
- Increased the number and improved the training of our employees.
 - Added to the carmen force and redistributed those employees for maximum impact.
 - Hired mechanics to handle the increased fleet, to expedite repairs and to reduce reliance on third party providers.
 - Hired more conductors in the first six months of 2004 than in all of 2003, and our current rate of hiring will continue through the remainder of the year with the result that our hiring will be more than double that of last year.
 - All mechanical employees will receive at least 40 hours of training and a management training program has been launched for all mechanical supervisors.

While there are other initiatives that could be listed, our service performance demonstrates that we have been effective in meeting our customers' requirements.

While KCS's plans have been successful in maintaining service metrics, we have had to make adjustments to reflect the service disabilities of some of the other Class I railroads. For example, those service problems have greatly slowed the return of empty cars which has led to tight car supply and loss of loadings at, for example, paper shippers. To mitigate the impact of this slow return, we very tightly manage the flow of both loaded and empty cars, and we often make special moves to ensure that shippers have adequate car supply.

The velocity of cars across the system is critical. In 2003, KCS increased its car velocity 25% over 2002 and in 2004, we have been able to hold the higher velocity. For our grain customers, this increased velocity together with the limited success we have had in adding to our car fleet has yielded a nearly 30% increase in our grain handling ability. We will take delivery of 76 high capacity (5150 cubic foot) grain hopper cars which we will put in quick turn shuttle service in order to effectively and efficiently handle our on-line grain shippers volume during the fall harvest.

Perhaps the most significant impact of the service problem faced by Union Pacific has been felt on the Tex Mex which, as you know, is owned in part by KCS. The Tex Mex operates under trackage rights over some 350 miles between Beaumont and Robstown, Texas over the UP. These trackage rights are necessary for Tex Mex to fulfill its role as a competitor to UP for Mexico traffic over the Laredo gateway. Traffic growth on both the Tex Mex and the UP has been met with inadequate maintenance and capacity investment by UP with the result that transit time is now double what was committed to by the UP when the Surface Transportation Board granted the trackage rights to Tex Mex in 1996. Because of UP's failure to maintain adequate capacity, shippers are being adversely impacted in both the U.S. and in Mexico. In addition, costs on the Tex Mex are being forced up as it hires more people, undertakes more investment in roadway, cars and locomotives all with limited success in offsetting the basic effects of congestion on the trackage rights over the UP.

Communication of our plans and actions to KCS's customers is constant and utilizes multiple channels. Our account managers along with our Account Management and Customer Service Centers are the primary method of communication and they are in constant two-way communication with our customers. These communications move forward on two levels – plans and programs, and transactions. As examples of our communication to customers on the issues you have raised, Attachments I and II are Performance and Progress Reports which our Account Managers delivered to customers in January and in March of this year.

In addition, KCS communicates with its customers at trade association meetings (such as National Feed and Grain, and National Freight Transportation Association), rail shipper association meetings (NARS, SWARS, SEARS Midwest, NEAR, PNWARS) and special meetings such as the customer meeting to be held in Kansas City on September 9.

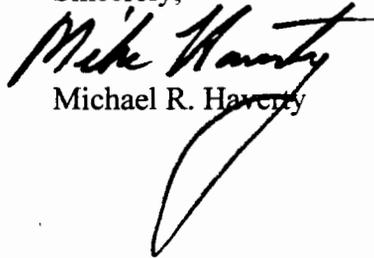
We also communicate using our website (four examples are contained in Attachment III); KCS News (which is published weekly and is distributed to customers, employees and others and included in our website is shown in Attachment IV); regular customer communications, called Connections (two examples are contained in Attachment V); and through special presentations to customers.

In summary, KCS has been effective at satisfying the objectives of meeting the customers' service requirements, accomplishing the right capacity-expanding investments at the right time and keeping our costs under control.

We at KCS are looking forward to serving the increased volumes during the peak season. I am confident that we do so while delivering service metrics that are at the leading edge of the industry.

Of course, I am prepared to discuss any aspect of this brief summary at the convenience of the Board.

Sincerely,

A handwritten signature in black ink that reads "Mike Haverly". The signature is written in a cursive, flowing style. Below the signature, the name "Michael R. Haverly" is printed in a standard serif font.

Michael R. Haverly

cc: The Honorable W. Douglas Buttrey
The Honorable Francis Mulvey
Ms. Betty Monroe, Acting Administrator, Federal Railroad Administration
Edward R. Hamberger, President, Association of American Railroads

ONE



Performance and Progress

January 2004

January 2004



Safety and Security

January 2004

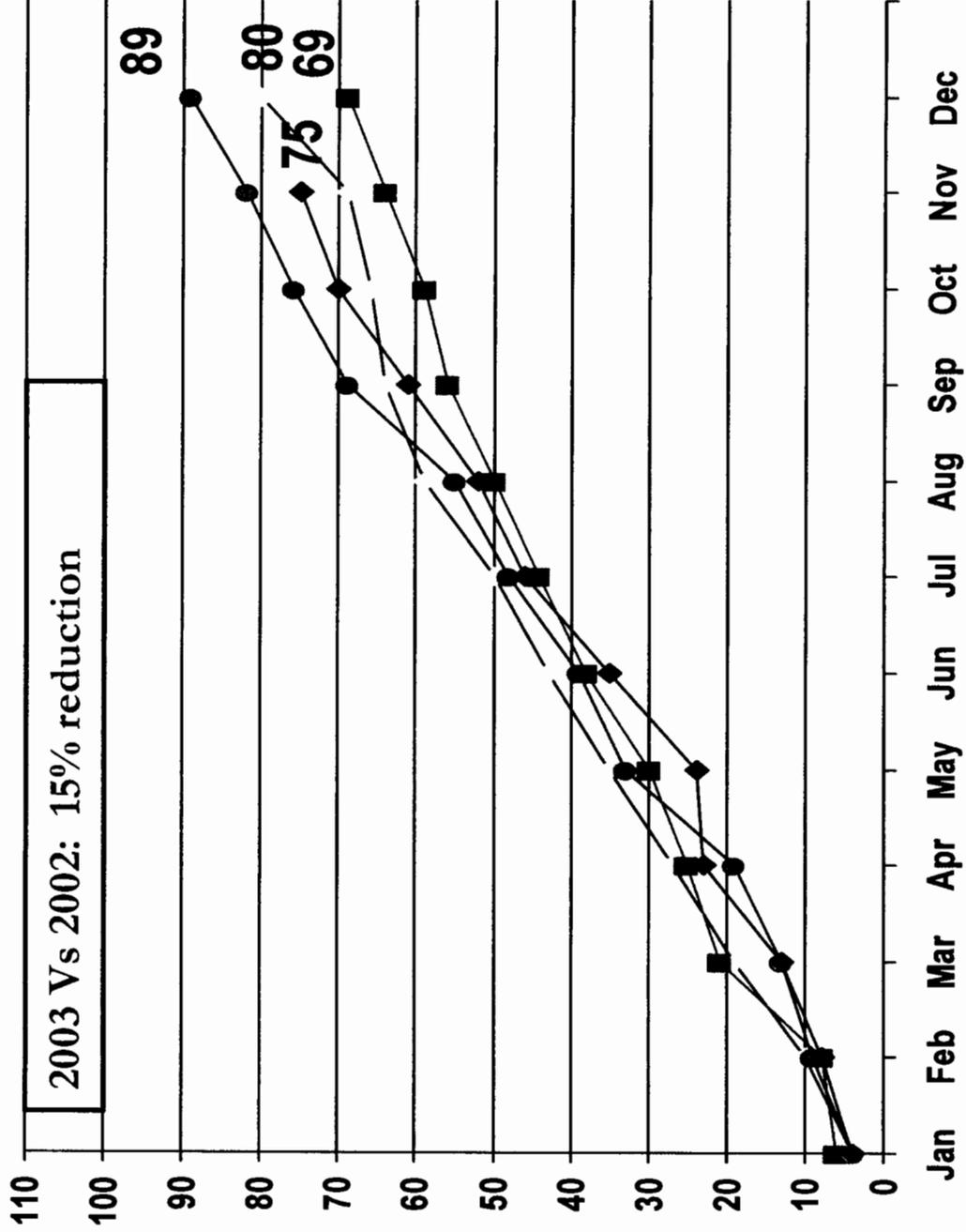


Safety and Security

- KCSR's craft and management employees embrace the safety vision of becoming the safest railway in North America, holding themselves personally accountable for their own safety and that of their peers. This commitment is demonstrated with marked improvement.
- KCSR is committed to moving our customers' shipments safely.

Reportable Injuries Reduced

November 2003

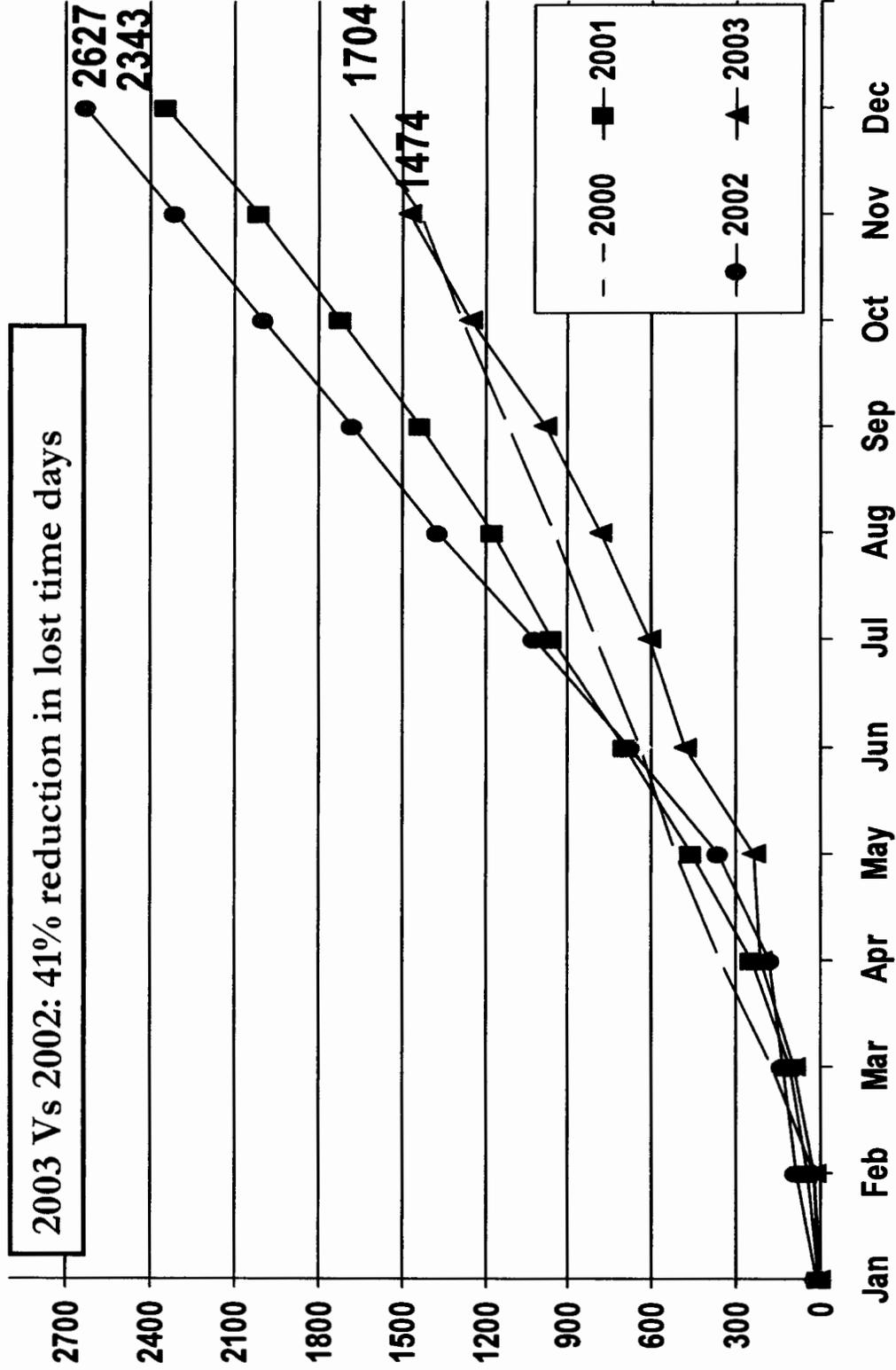


This chart represents submittal to FRA per their requirements. ~~January 2004~~ Additional claims of employee injuries filed directly through claims/legal which may meet FRA reportability requirements if substantiated.



Injury Lost Time Days Reduced

November 2003



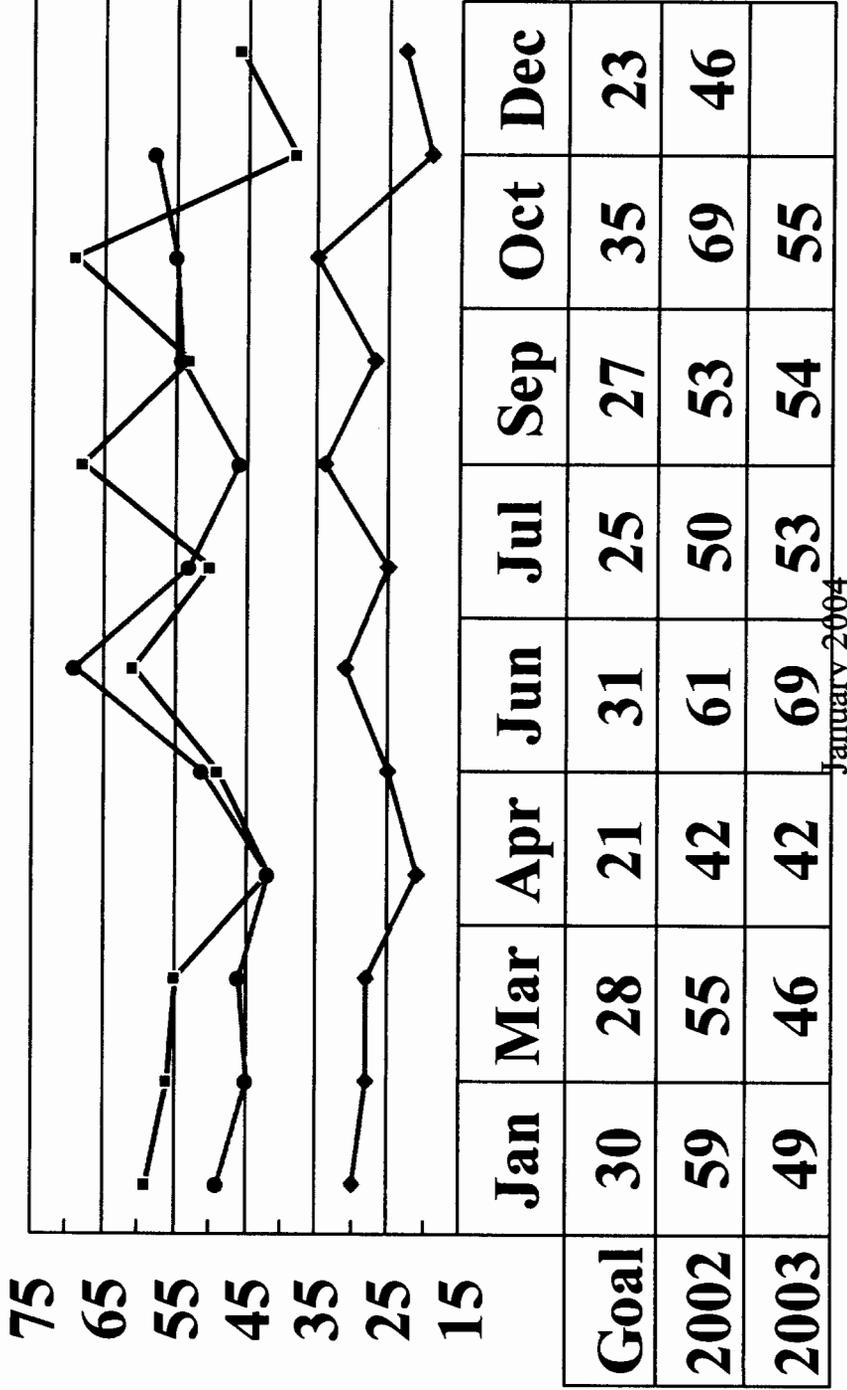
2003 Vs 2002: 41% reduction in lost time days



Train Accidents Reduced

Year 2003 Vs 2002: 5% reduction in total train accidents

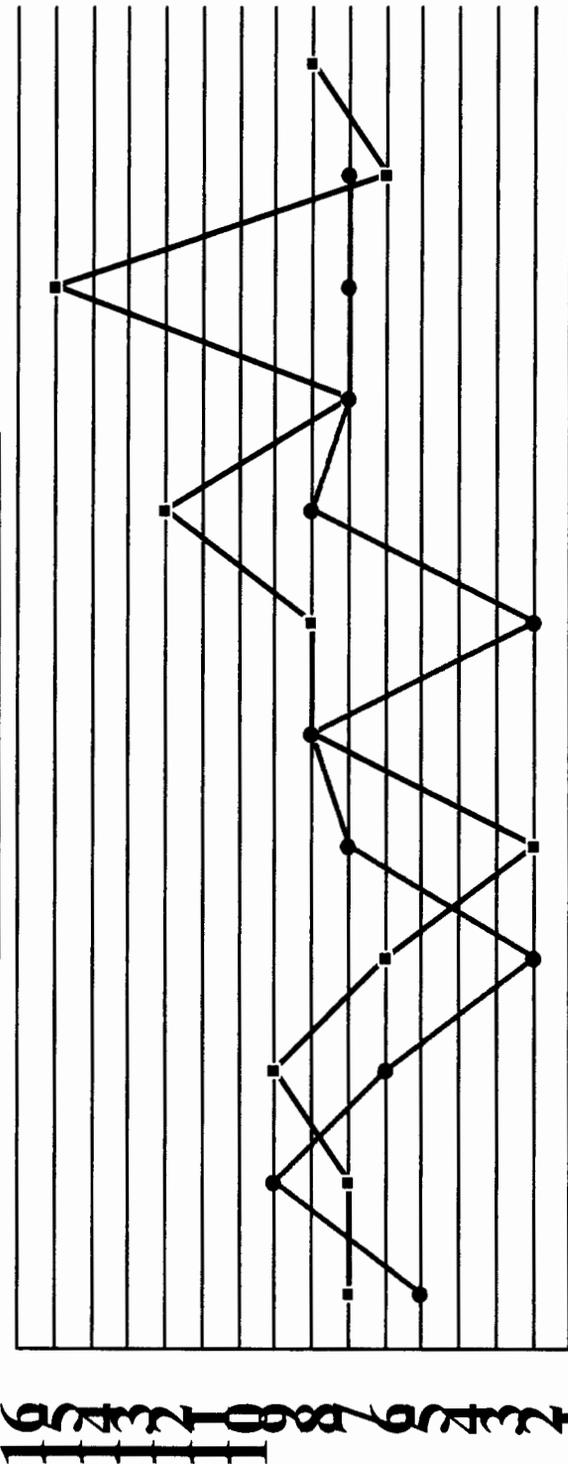
--- Goal --- 2002 --- 2003



Reportable Train Accidents Reduced

2003 Vs 2002: 22% reduction in FRA Reportable Train Accidents

--- 2002 ●--- 2003



	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
2002	7	7	9	6	2	8	8	12	7	15	6	8
2003	5	9	6	2	7	8	2	8	7	7	7	8

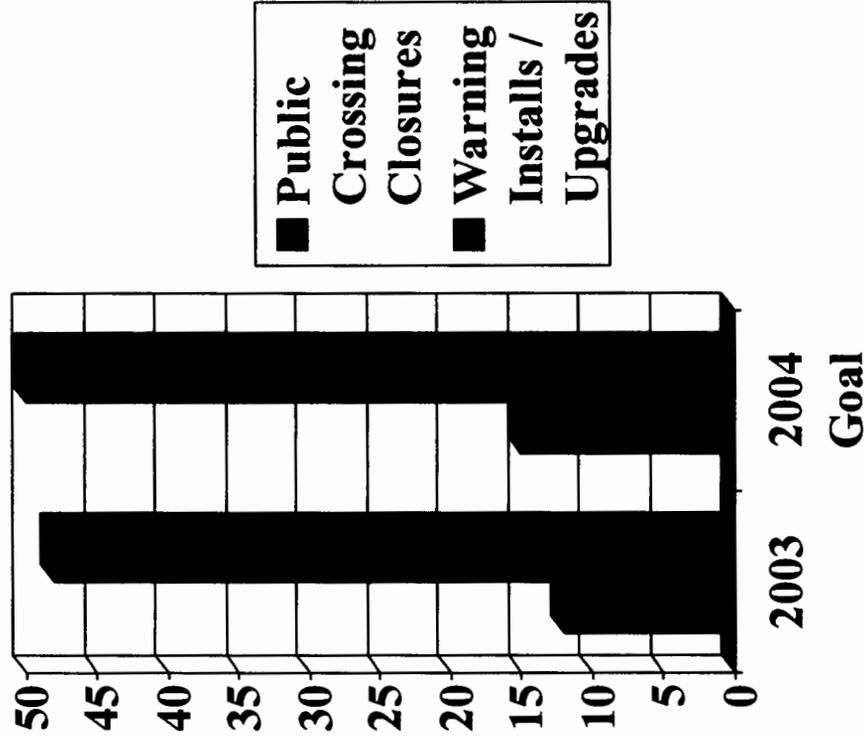
Focus on Employee Safety

- In 2003, 1,200+ transportation employees received general code of operating rules and hazardous materials training.
- 42,000+ operations tests were performed in 2003, 12,000 more than 2002.
- Remote control is enhancing safety.
- A new safety approach in 2004 places greater accountability in the hands of front line supervisors.

Focus on Public Safety



- Fatalities including collisions and trespassing incidents were down 39% in 2003 over 2002.
- Aggressive pursuit of crossing closures, warnings and a stringent request process to reduce new crossings.



Focus on Security

- In 2003, KCSR completed system-wide rail security awareness training of all employees, as mandated by the U.S. Department of Transportation.
- In 2003, U.S. Customs and Border Protection of the Department of Homeland Security recognized KCSR, as a certified member of the Customs-Trade Partnership Against Terrorism, a voluntary program.

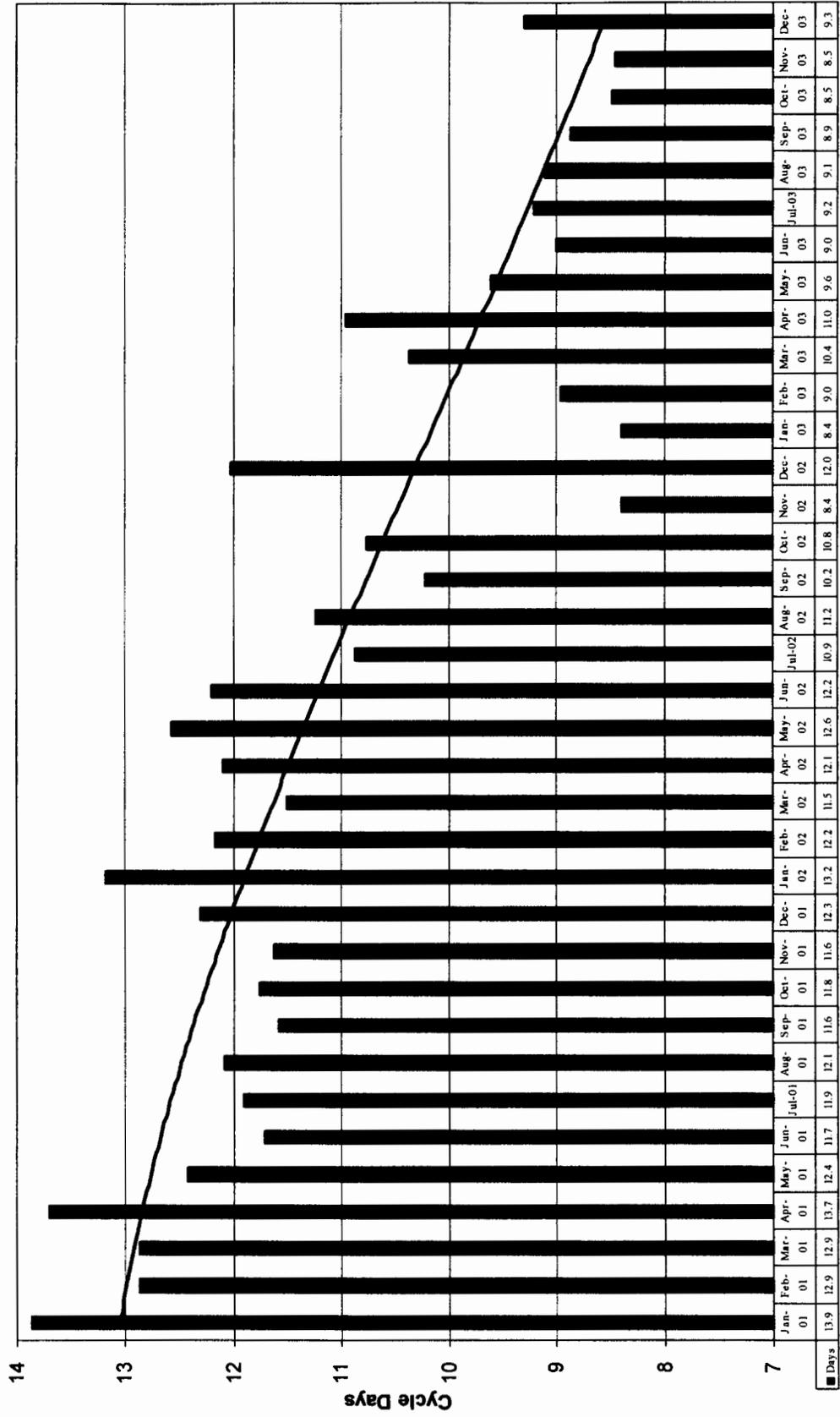




Operating Performance

Car Cycle Time (Load to Empty)

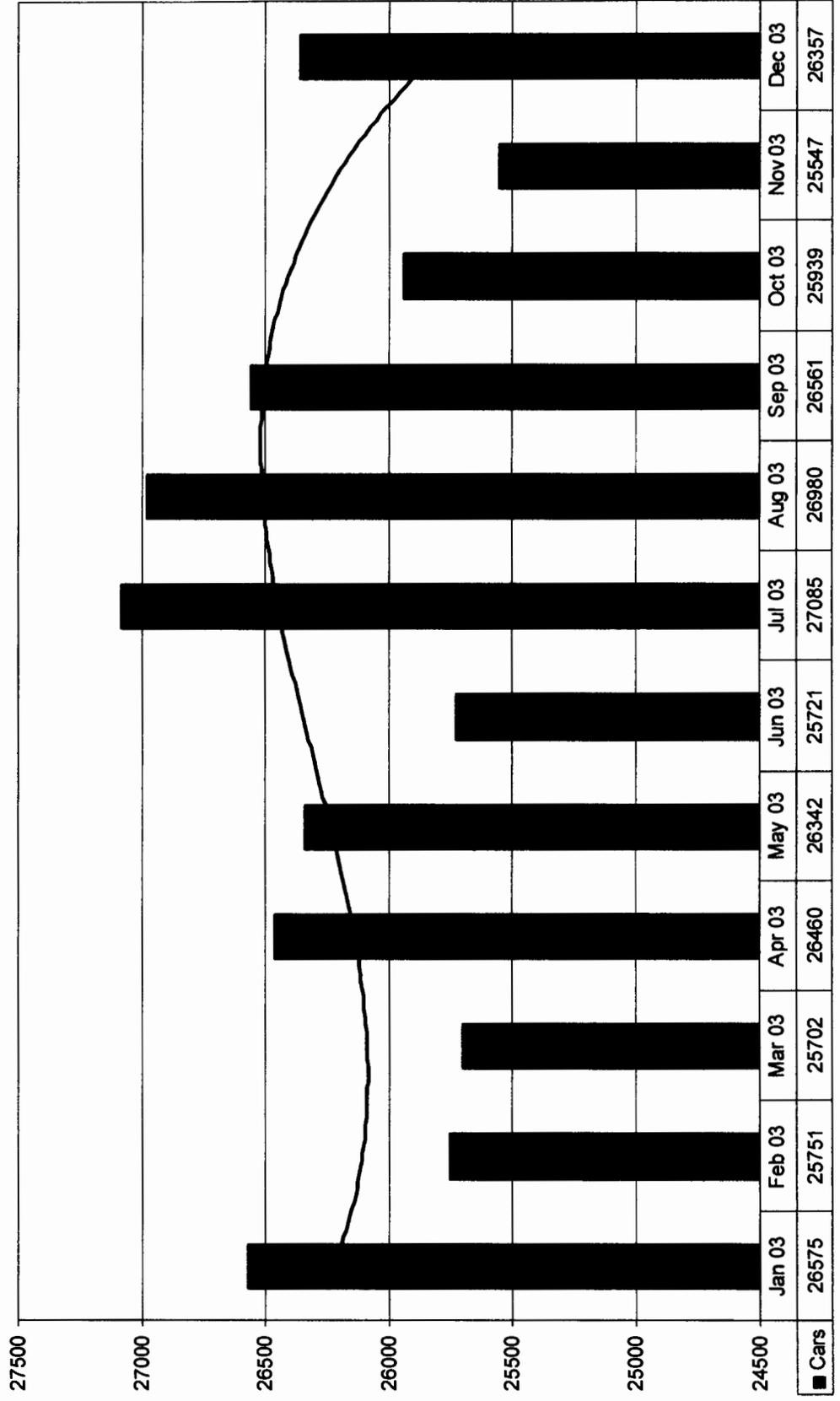
January 2001 to December 2003



January 2004



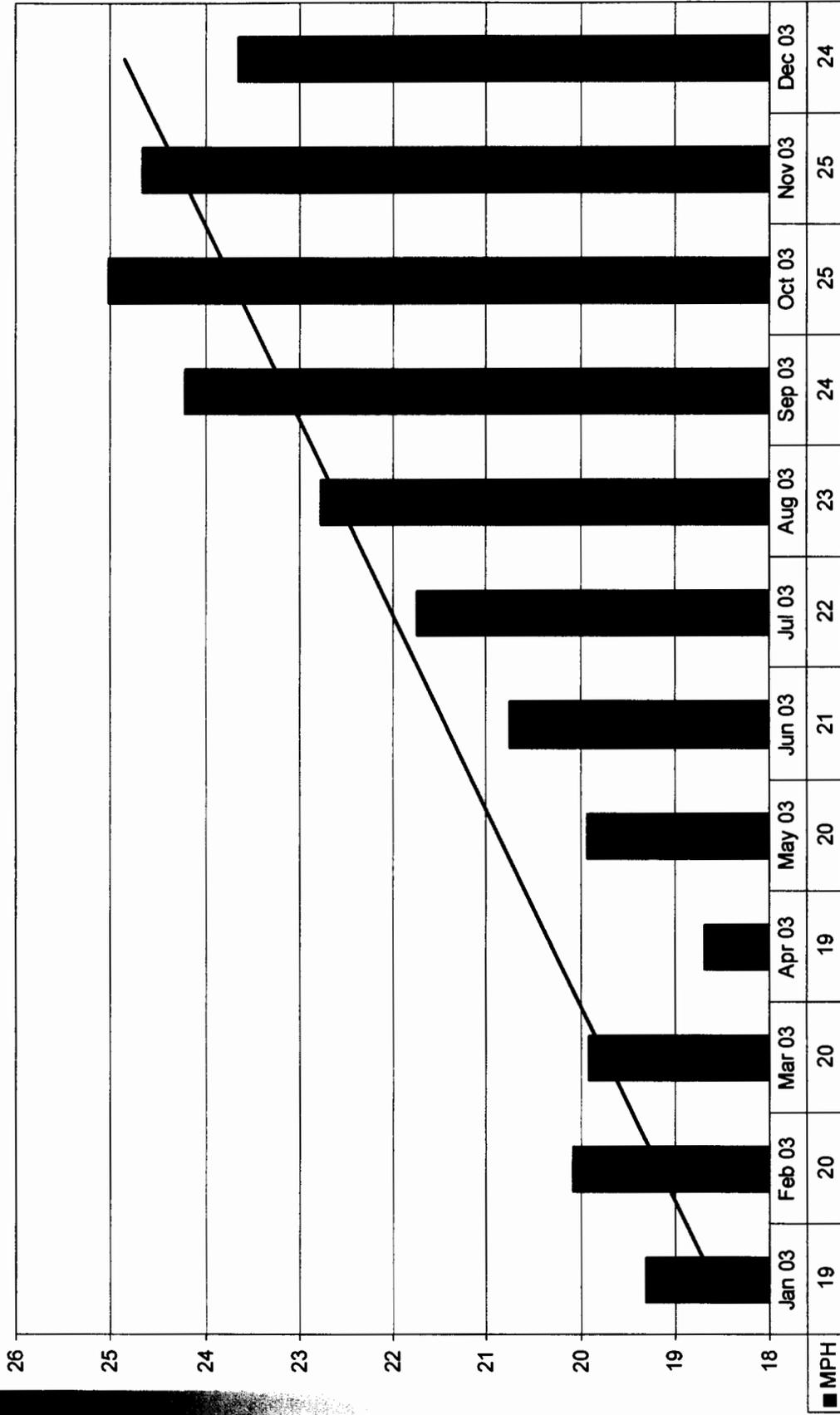
Average Cars On Line



January 2004



All Trains Speed

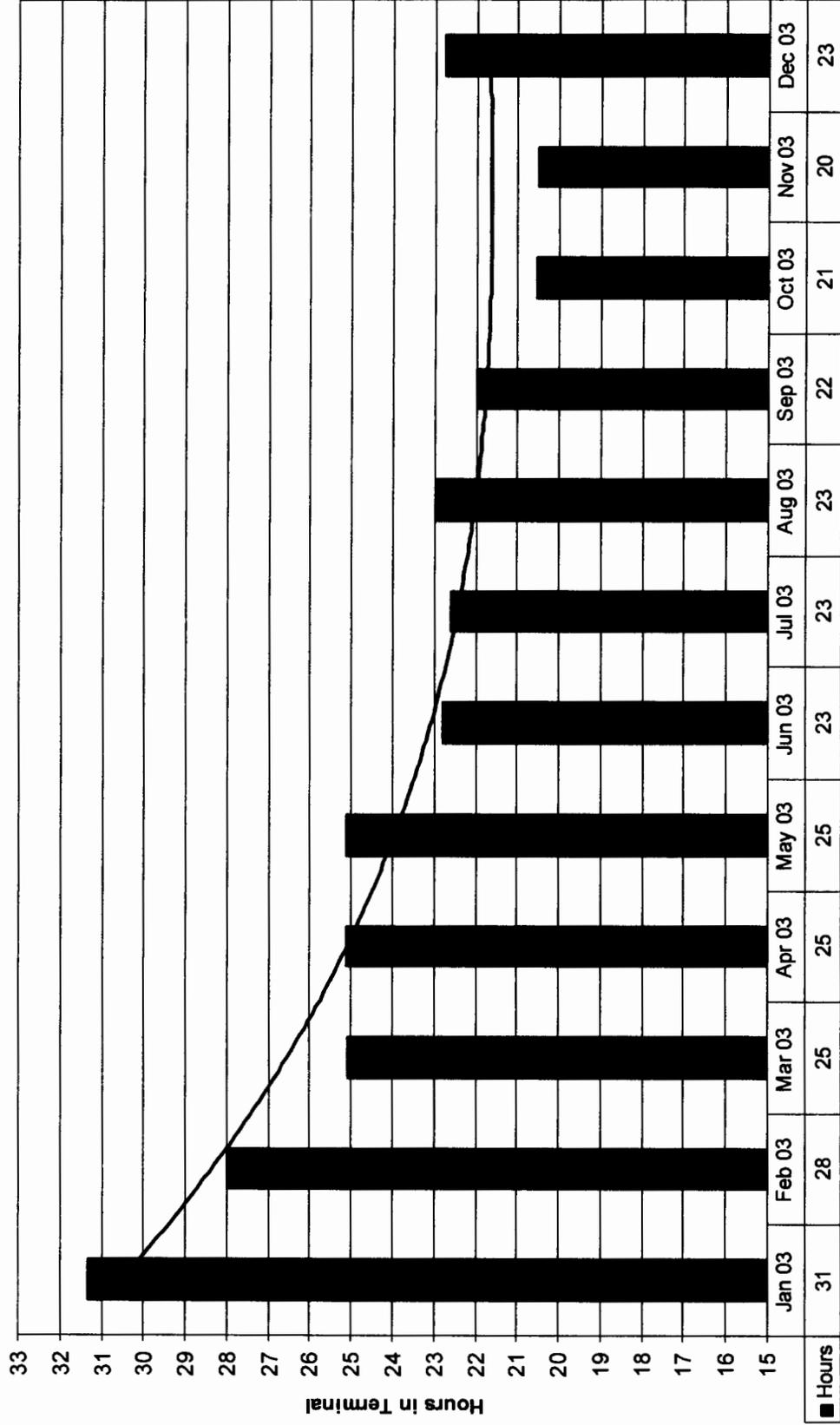


Slow Order Miles

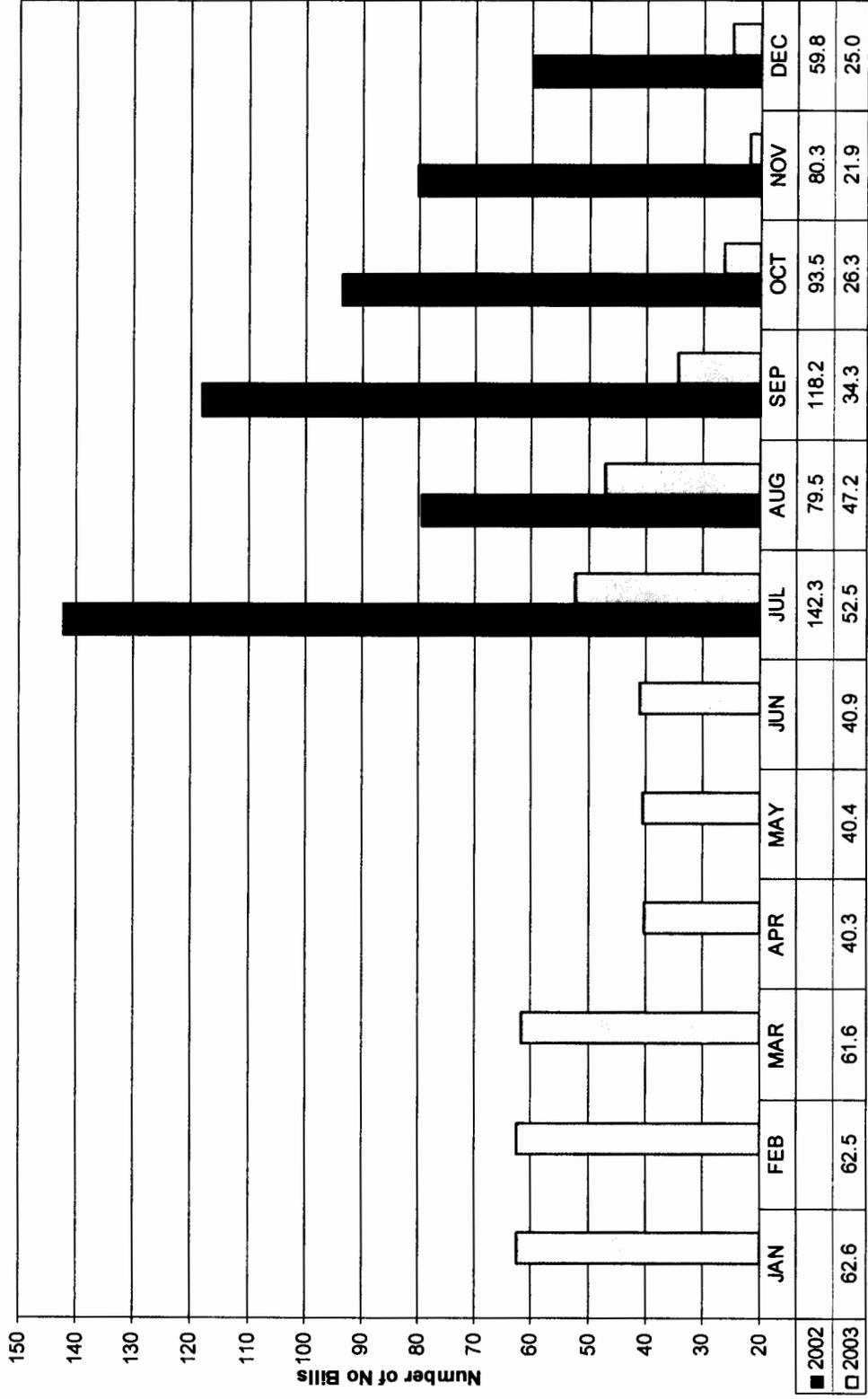
- The engineering department's goal is to maintain less than five miles of slow order at any given time, a goal that is consistently met.
- As of January 12, 2004, there were 1.7 slow order miles on KCSR and Tex-Mex.
 - 4 slow orders on KCSR
 - 8 slow orders on Tex-Mex



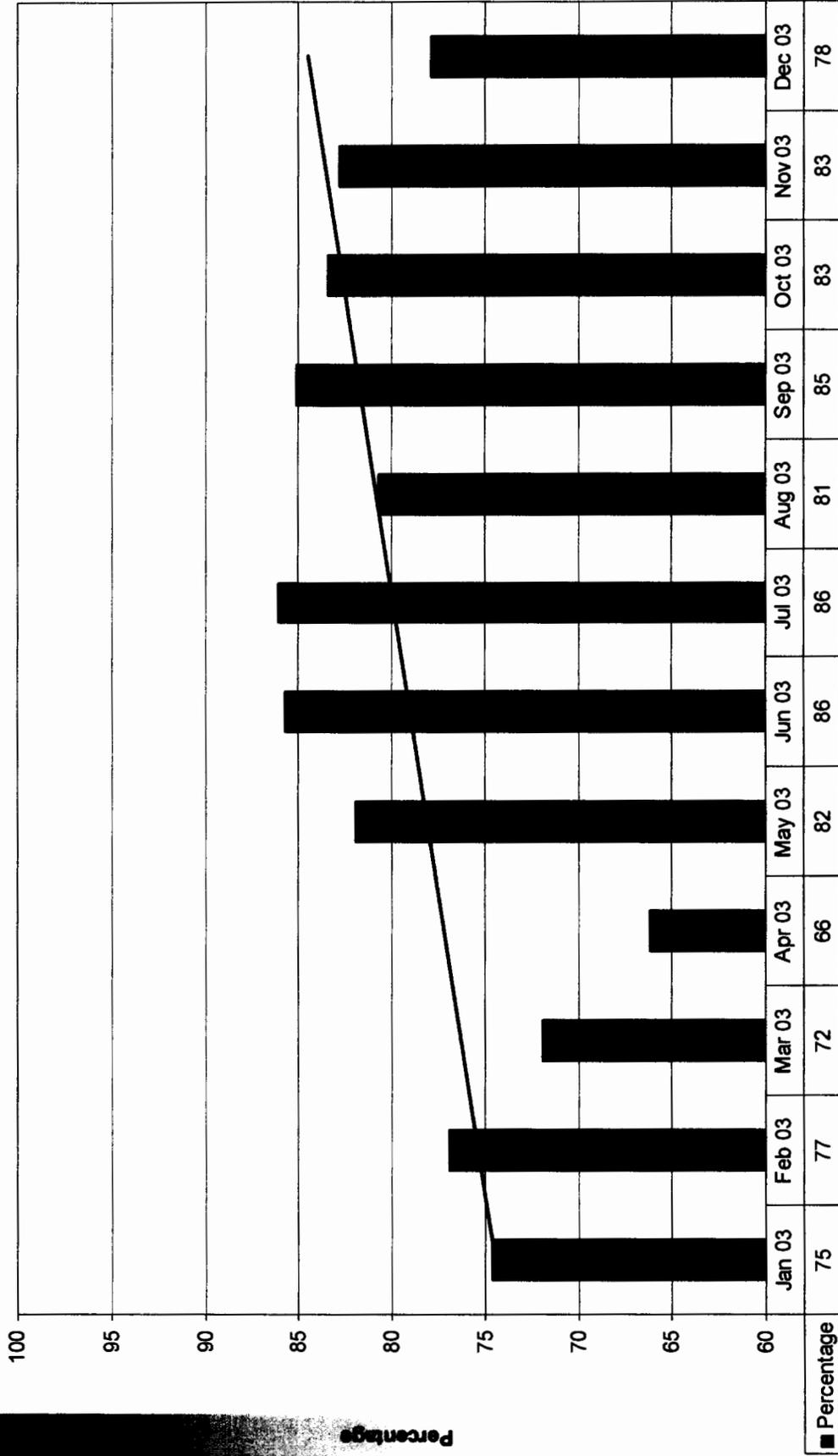
Terminal Dwell



System No-Bills 2003 vs. 2002



On Time Origination

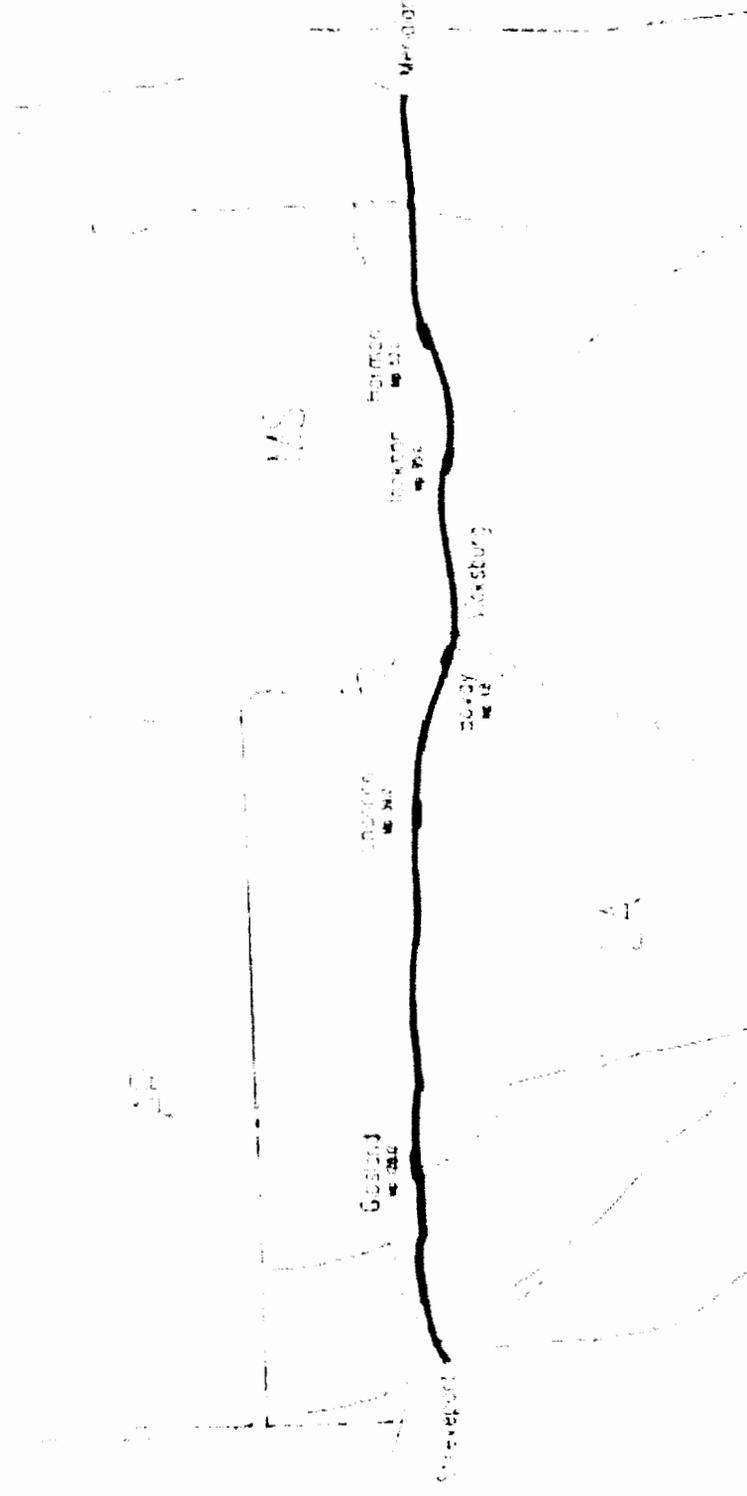




Efficiency and Strength through Capital Investments

Meridian Speedway
Meridian, MS to Shreveport, LA

Meridian Speedway



Sidings

- **March 2003 - Bovay siding completed.**
 - Allows east and westbound trains to pass, reducing train meet times.
 - This siding also allows trains to be staged outside Vicksburg, MS.
- **September 2003 - Shannon siding completed.**
 - Removed three at grade crossings by constructing an access road, eliminating the need to break trains during train meets and improving public safety.
- **December 2003 - Gibsland siding completed.**
 - Extended existing siding to 8,500 feet with no road crossings.
- **January 2004 - Harmon siding to be completed.**
 - Reduced previous 40 mile distance between sidings by half, cutting train wait time for meets and passes.





Vicksburg, Mississippi

- On October 31, 2003, KCSR closed on a real estate transaction purchasing property adjacent to the main line in Vicksburg and will take possession of the land on or before May 31, 2004.
- Design work is underway and construction to realign the main line is intended to begin mid-second quarter 2004.
- This project will improve train operations/handling and safety by reducing curvature from a 17 to a 10 degree curve.

Jackson, Mississippi

- Construction of a double track main line between the CN crossings and the west end of Jackson will be completed January 2004.
- Installation of a main track between the west end of High Oak Yard and the CN main line will begin Spring 2004.
- This project will improve train speed through Jackson.



Power Switches

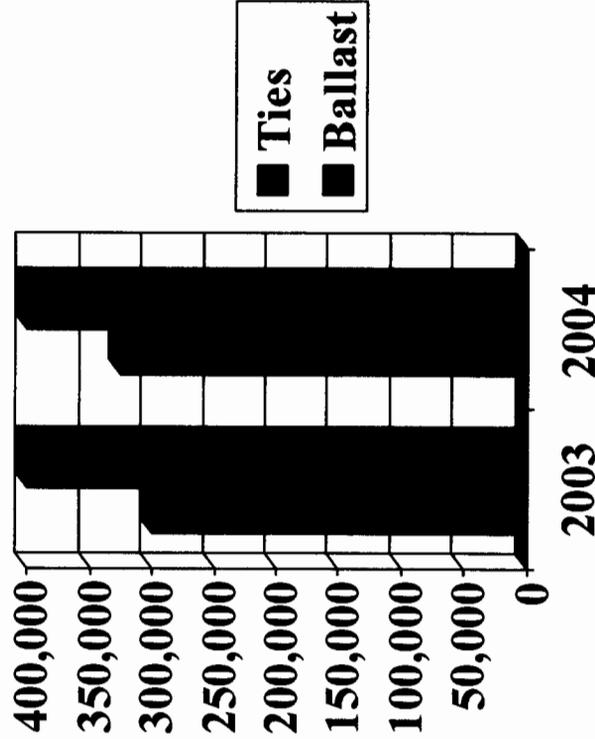
- In the last two years, 17 power switches were installed on the Meridian Speedway and 13 more will be installed in 2004.
- Power switches eliminate the need to stop trains for train crews to manually line switches to move across the system.



Ties, Ballast and Rail



- In 2003, KCS adopted the industry standard of installing 136-lb. rail on tangents and 141-lb. head hardened rail on curves on the main line.
- In 2004, 25 miles of rail and 326,000 cross ties will be relayed, 27 turnouts will be replaced and \$5 million will be spent on bridge repairs and replacements.
- KCS is investing in infrastructure to meet or exceed our customers' expectations.





Locomotives

- In 2003, KCSR spent \$13 million on the overhaul of locomotives and major sub-assemblies.
- Recent improvements in fleet management have meant almost no holds for power and on line failures are trending down.
- KCSR maintains a fleet of approximately 500 locomotives.
- Reliable locomotives enhance overall service reliability.

Fueling Efficiency

- Fuel supply is fortified with construction of a pipeline to supply fuel in Heavener, OK.
- Pipeline connection will be made in March 2004.
- Loading rack will be completed in May 2004.
- Negotiations underway for a similar resource near Shreveport by Q2 2005.
- Reduce shipment delays through Heavener, OK.



Tex-Mex Rehabilitation

- Completed in 2003:
 - Relay of 15 curves
 - Relay and rehabilitation of four sidings
 - Installation of 14 new turnouts
 - Installation of 90,000 main line ties and 10,000 siding ties
 - Rehabilitation of 47 road crossings
- Improves Tex-Mex service reliability.





Efficiency through Technology

Management Control System (MCS)

- Installed in July 2002, MCS provides management with tools to support a disciplined operation with car scheduling capabilities at the core of the business processes.
- MCS enforces structured, disciplined event reporting that ensures that accurate records are maintained for the entire inventory.
- The new processes result in improved operating efficiency that increases car velocity.





New Features in MCS

- In 2003, Interline Service Management (ISM) was integrated into MCS, making freight transportation across multiple railroad more seamless.
 - KCSR can plan for inbound traffic from connecting carriers.
 - Trip plans shared across connecting carriers.
 - Improved customer communication and planning.
 - Proactive shipment monitoring of customer traffic.
- In 2003, Locomotive Management System (LMS) was fully integrated into MCS.
 - Provides more accurate and current information to better manage and maintain the locomotive fleet.
 - AEI driven.

MCS on Tex-Mex

- Implementation of MCS on Tex-Mex and TFM remains in progress.
- It is planned that MCS will be implemented on Tex-Mex in Q1 2004.

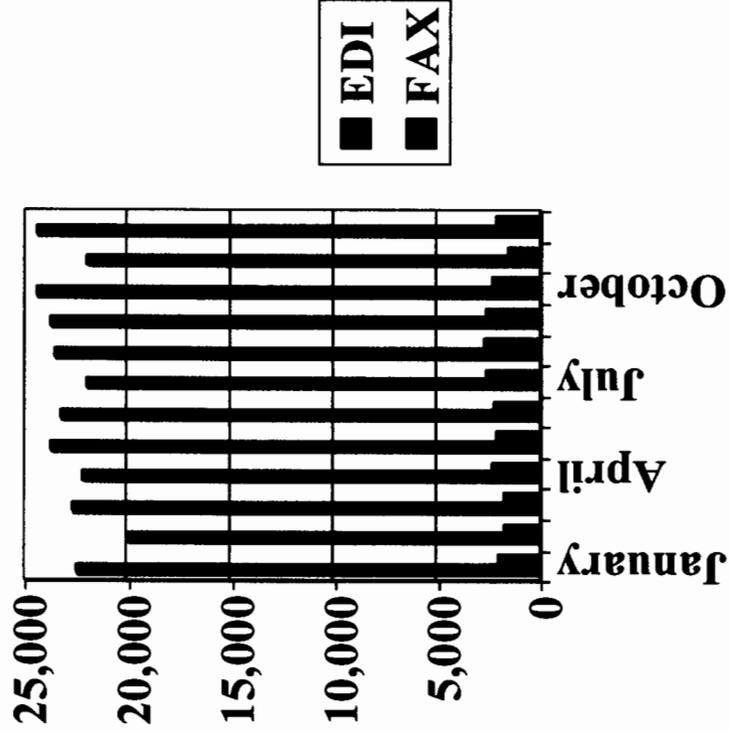


Online Customer Request

- In May 2003, KCS introduced Online Customer Request, a tool making it easier to do business.
- Ensures that the service KCS provides is on time and the way the customer ordered, with direct customer involvement in the process.
- Services available in Online Customer Request include:
 - Ordering in cars from constructive placement, from a lease track and adding spotting instructions
 - Requesting intraplant switches
 - Rejecting empty cars, and
 - Releasing empty cars.

Customers Prefer EDI

- On average, 90% or more customers are using Electronic Data Interchange (EDI) over faxing.
- EDI ensures greater accuracy and timeliness of the customer's request, by eliminating manual handling.



Enterprise Workforce Management

- An integrated crew management timekeeping system that captures time and mileage data to compute gross pay for the T&E workforce, as well as hours and gross pay for non-operating employees.
- Improves management of daily payroll expenses.
- Partially implemented in 2003, to be completed in 2004.
 - T&E implemented in three phases in 2004: Kansas City to East St. Louis, Eastern/Mid-South Division, All of KCS.
 - Followed by remaining line operations, mechanical department in Shreveport, the Customer Service Center, maintenance of way and signal departments.

Gateway Western Integration

- In July 2003, GWWR markings were fully integrated into KCSR.
- The integration effectively dissolves GWWR, streamlining basic processes and improving operating efficiencies.
- Customers benefit with improved shipment management, single point of contact, streamlined routing specifications and seamless flow of shipments across transition points.





New Service Offerings Bring Competitive Transportation Options

Mobile, Alabama Access

- KCSR began serving Port of Mobile, AL in January 2003 through a combination of haulage and trackage rights with CN from Jackson, MS to the Port.
- Agreement provides customers with access to all facilities served by the Alabama State Docks, the Central Gulf Railroad and an interchange point with CSX.





Triangle Marine Industrial Park

- 408-acre industrial park opened in February 2003 in Beaumont, TX.
- Centrally located between Texas highways 69, 96, 287 and 347 and situated on top of a major pipeline corridor in the Beaumont enterprise zone.
- 23-acre rail yard (over a mile adjacent to KCSR's main line), 1,700 ft. Neches River frontage, 90-acre turning basin and three deep water docks with 35 ft. depth.
- Ideal for movement of liquid and dry bulk materials.
- Plenty of room for growth.



PABFAC Dry Bulk Transfer

- In August 2003, KCSR re-opened this facility in Port Arthur, TX.
- Operated by Kinder Morgan Bulk Terminals.
- 70 acres adjacent to yard with opportunities for loading soda ash and other dry bulk commodities.
- Annual potential of 300,000 tons.
- Provides more options for moving products.

Kansas City, Missouri Plastics TLC

- Relocated from downtown Kansas City, MO riverfront in September 2003 to a newly constructed, more efficient, 10-acre yard.
- Operated by Quality Carriers.
- 25% track capacity increase planned for 2004.
- Increases TLC operation efficiency.



Dallas, Texas TLC's

- In 2003, KCSR hired nationally recognized logistics firm, Warehouse Specialists to operate its two Dallas area TLC's.
- Serves paper, forest products and steel.
- Operator facility upgrades have already increased business 50% in 2003 and poises facility for growth.
- Greater access to Dallas/Fort Worth area.

Jackson, Mississippi TLC



- In November 2003, KCSR completed construction Phase II of IV.
- 55 acres operated by Kinder Morgan Materials Services
- Handles bulk plastics, food products, clay, forest products and steel.
- Track capacity to increase 25% in 2004.
- Annual 3,000 car potential by 2006.
- Greater access to Jackson area.



Enhancing Competition

NAFTA Rail Transaction Summary

January 2004



April 21, 2003

- KCS and Grupo TMM, S.A. (TMM) announced a series of agreements that would place KCSR, Tex-Mex and TFM under common control of a single transportation holding company to be called NAFTA Rail.
- Placing these three railroads, which are already linked in an end-to-end configuration, under common control would enhance competition and give shippers in the NAFTA trade corridor a strong rail transportation alternative for freight moving between the United States, Mexico and Canada.
- The creation of NAFTA Rail would strengthen the rail network we currently have and provide shippers with a more vital competitor in this market.



May 2003

- KCS completed financing totaling \$200 million through its offering of Preferred Stock in a private offering.
- KCS intended to use the net proceeds of this financing to pay a portion of the purchase price for the proposed acquisition of the controlling interest in Grupo TFM (GTFM) by NAFTA Rail.

June - August 2003

- KCS received notice that the Mexican Competition Commission had approved the proposed transaction, finding that it fully complied with Mexico's competition guidelines, and would in no way impede competition within the transportation sector.
- Similarly, in early August, the U.S. Department of Justice allowed the waiting period for the transaction to expire under the Hart-Scott-Rodino Antitrust Improvements Act of 1976 without a formal request for additional information, allowing KCS and TMM to consummate their transaction without any further delays.
- In a separate proceeding, the Mexico Foreign Investment Commission, which reviews foreign investments in Mexico, announced that their review and decision on the transaction would be completed on or before August 28, 2003. This commission approval is necessary for KCS to exercise control over a Mexican railway.

August 18, 2003

- Following its shareholder meeting, TMM announced that its shareholders had failed to approve the sale of TMM's interest in GTFM to KCS as had been agreed to previously by the authorized representatives of each of the parties, and as had been recommended to the TMM shareholders by its board of directors.



November 2003

- In response to its request for injunctive relief, KCS received a written order from The Court of Chancery of the State of Delaware enjoining TMM, and two of its controlled subsidiaries, from taking any action in violation of the terms of the April 20, 2003 Acquisition Agreement pending resolution of the dispute between KCS and TMM.
- In accordance with the terms of the Acquisition Agreement, KCS has initiated arbitration proceedings to resolve the dispute as soon as possible.
- The arbitration will be held in New York, NY, and will be governed by Delaware law and the rules of the American Arbitration Association.
- The panel of arbitrators that will hear and decide the case has been formed, and a decision is expected early in 2004.





January 6, 2004

- The Delaware Court of Chancery held TMM in contempt of court for taking action inconsistent with its October 29, 2003 order that TMM abide by the terms and conditions of the Acquisition Agreement pending arbitration of the parties' dispute over the Agreement.
- The court held that by TMM causing its subsidiary Grupo TFM (TFM) to revoke powers of attorney requiring the signature of a KCS representative for transaction in excess of \$2.5 million and in granting new powers of attorney to TMM directors, Jose Serrano and Mario Mohar to act on behalf of the company, TMM violated provisions of the Acquisition Agreement.
- The previous order of the court required TMM to cause GTFM to conduct its business in accordance with past practices and not to directly or indirectly amend its organization documents.
- The court ordered TMM to take the actions necessary to revoke the new powers of attorney, to re-enact the original powers of attorney, and to pay KCS its costs and attorney fees for bringing this motion for contempt.
- KCS believes the Delaware Court's decision is appropriate and upholds KCS's belief that TMM cannot arbitrarily take actions without KCS's concurrence.



Summary

- KCS remains committed to this transaction and to being a strong rail competitor in the NAFTA trade corridor.
- Since KCS first made its historic investment in TFM in 1997, KCS has believed in the NAFTA economy and the importance of trade between Mexican and the United States.
- KCS remains hopeful that KCS and TMM will find resolution to this dispute.

TWO



Performance and Progress

First Quarter 2004

March 2004



Safety and Security

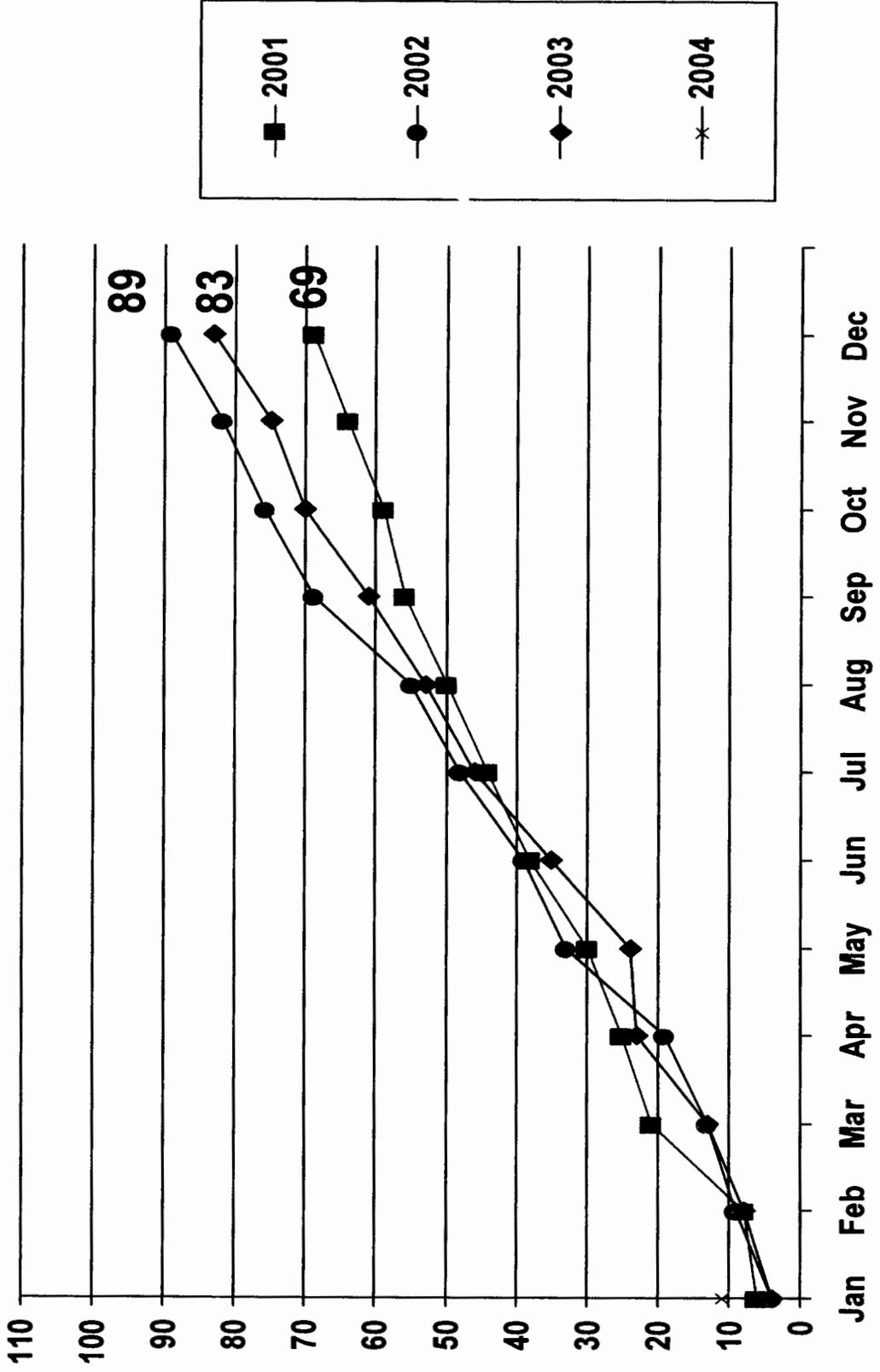
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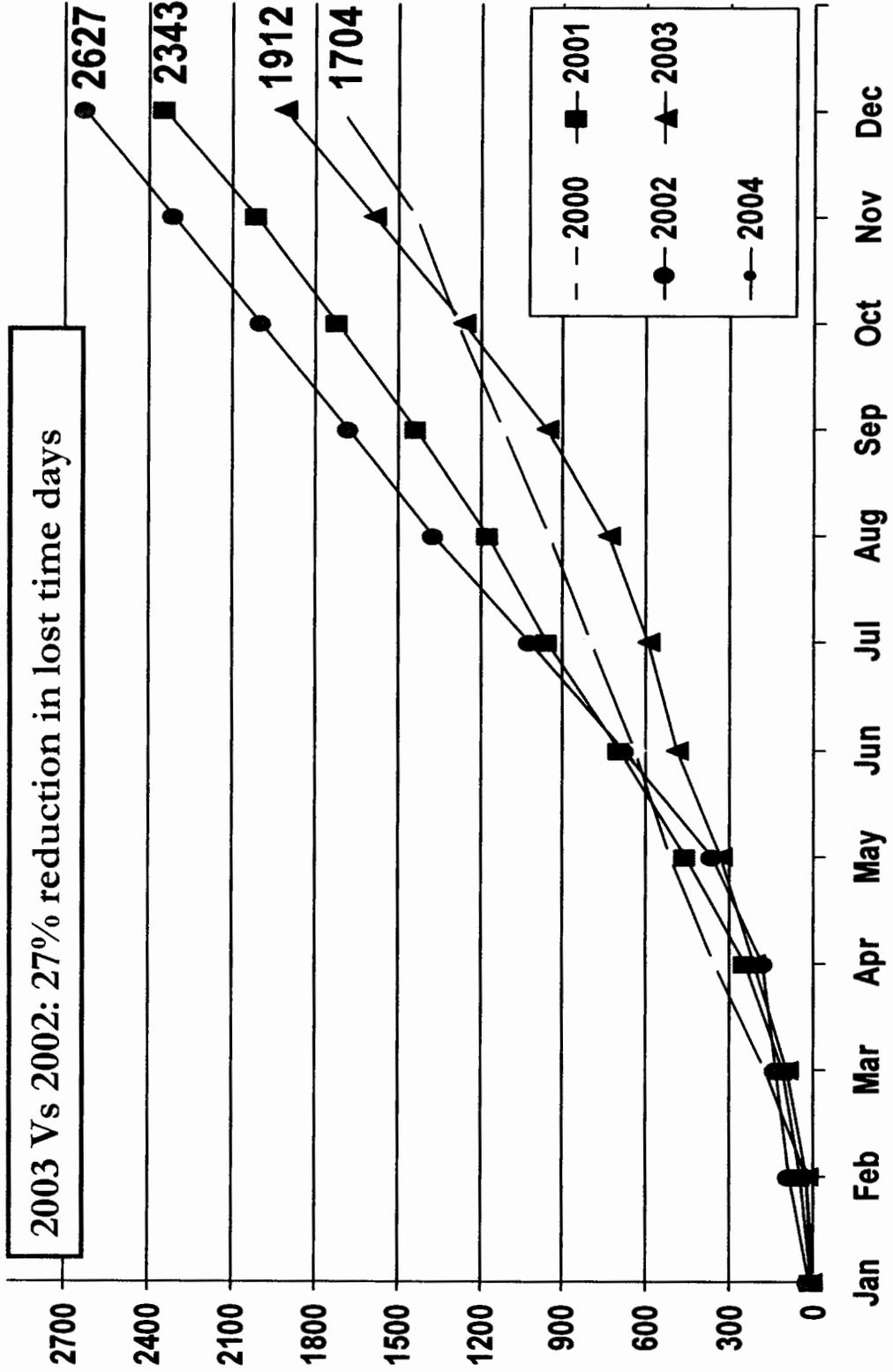
Reportable Injuries

January 2004



Injury Lost Time Days

January 2004



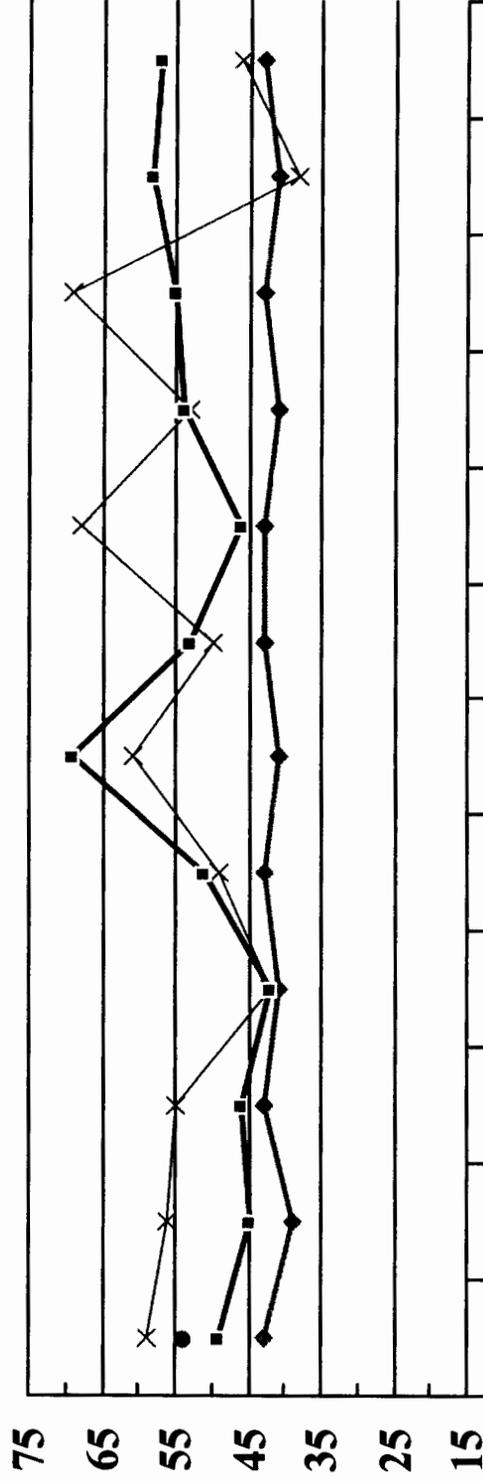
March 2004



Train Accidents

January 2004

---◆--- 2004 Goal --*-- 2002 ---■--- 2003 -●- 2004



	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
2004 Goal	43	39	43	41	43	41	43	43	41	43	41	43
2002	59	56	55	42	49	61	50	68	53	69	38	46
2003	49	45	46	42	51	69	53	46	54	55	58	57
2004	54											

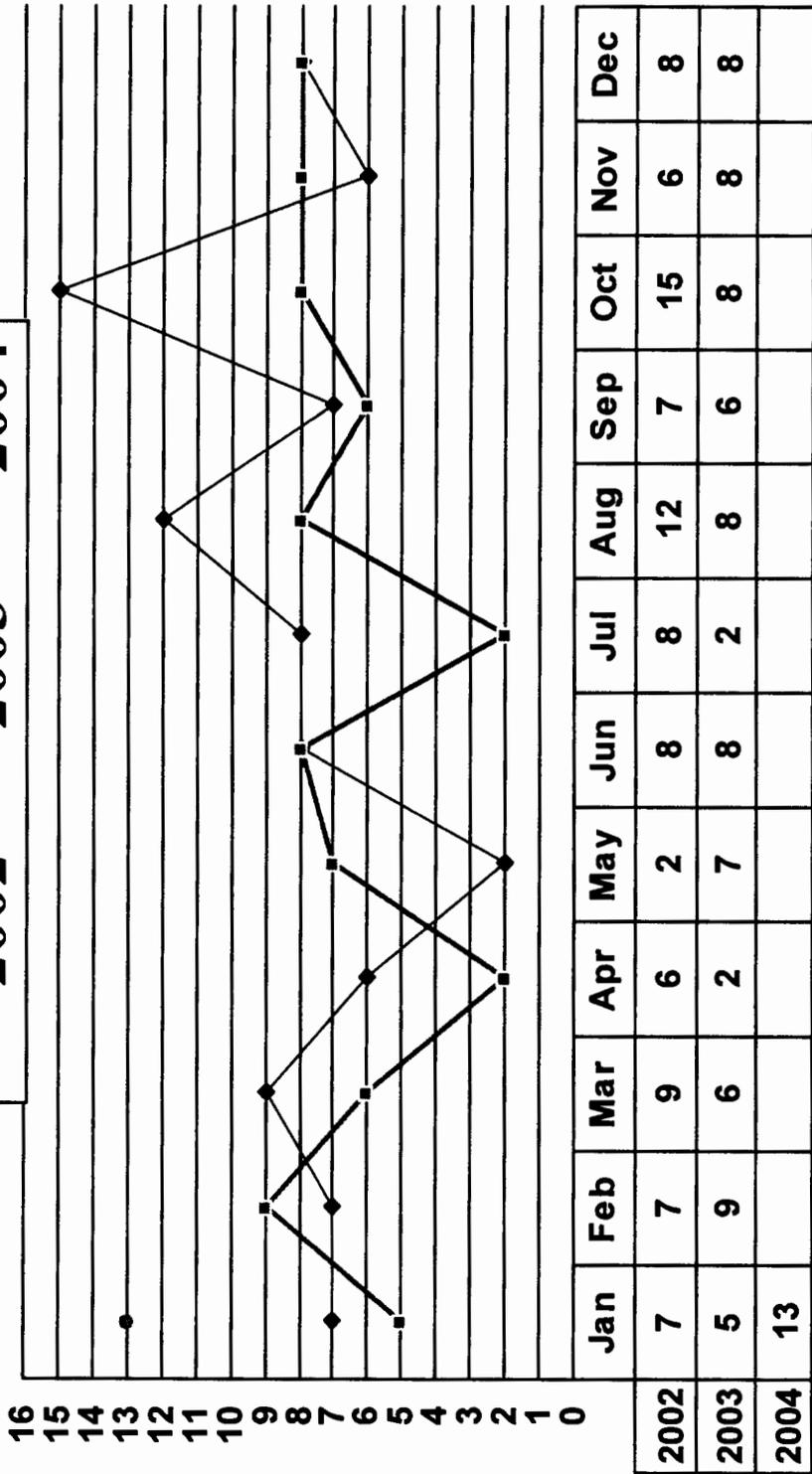
March 2004



Reportable Train Accidents

January 2004

◆ 2002 ■ 2003 ● 2004



March 2004



Focus on Employee Safety

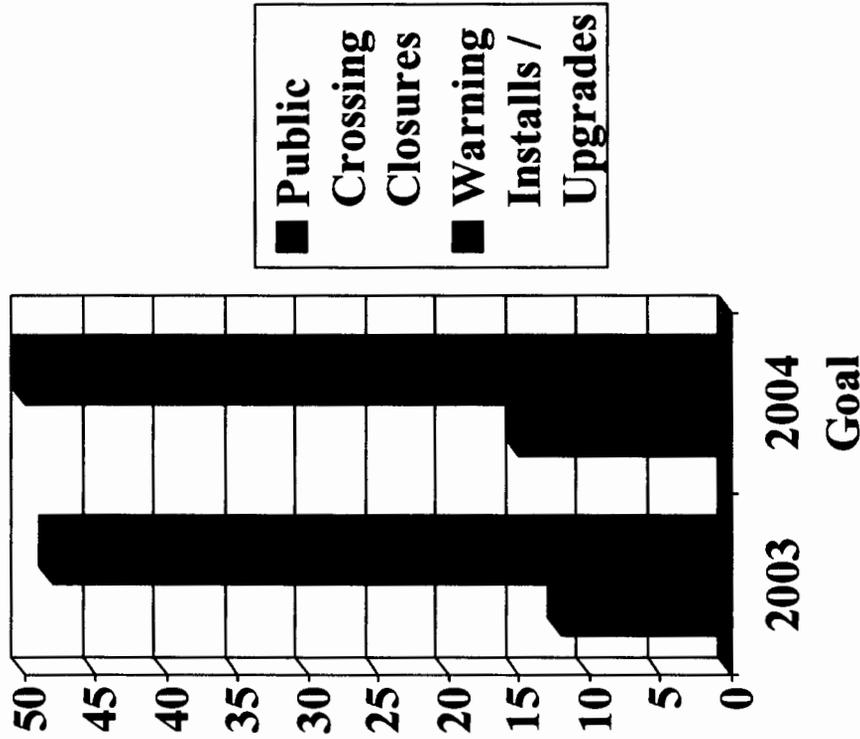
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- In 2003, U.S. Customs and Border Protection of the Department of Homeland Security recognized KCSR, as a certified member of the Customs-Trade Partnership Against Terrorism, a voluntary program.
- In 2003, KCSR completed its Hazardous Materials Security Plan in compliance with the U.S. Department of Transportation's new regulations.

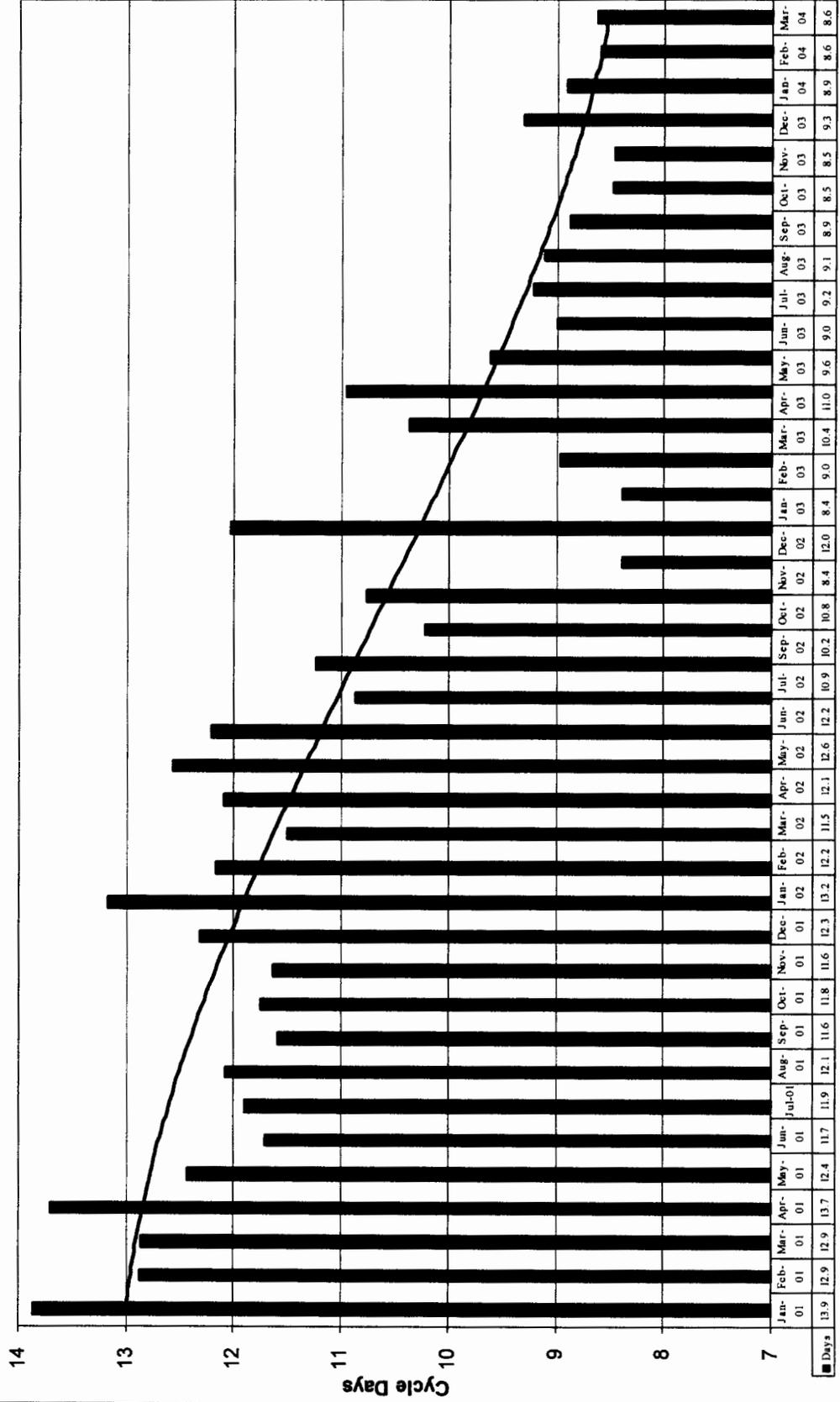


Operating Performance

March 2004

Car Cycle Time (Load to Empty)

January 2001 to March 31, 2004

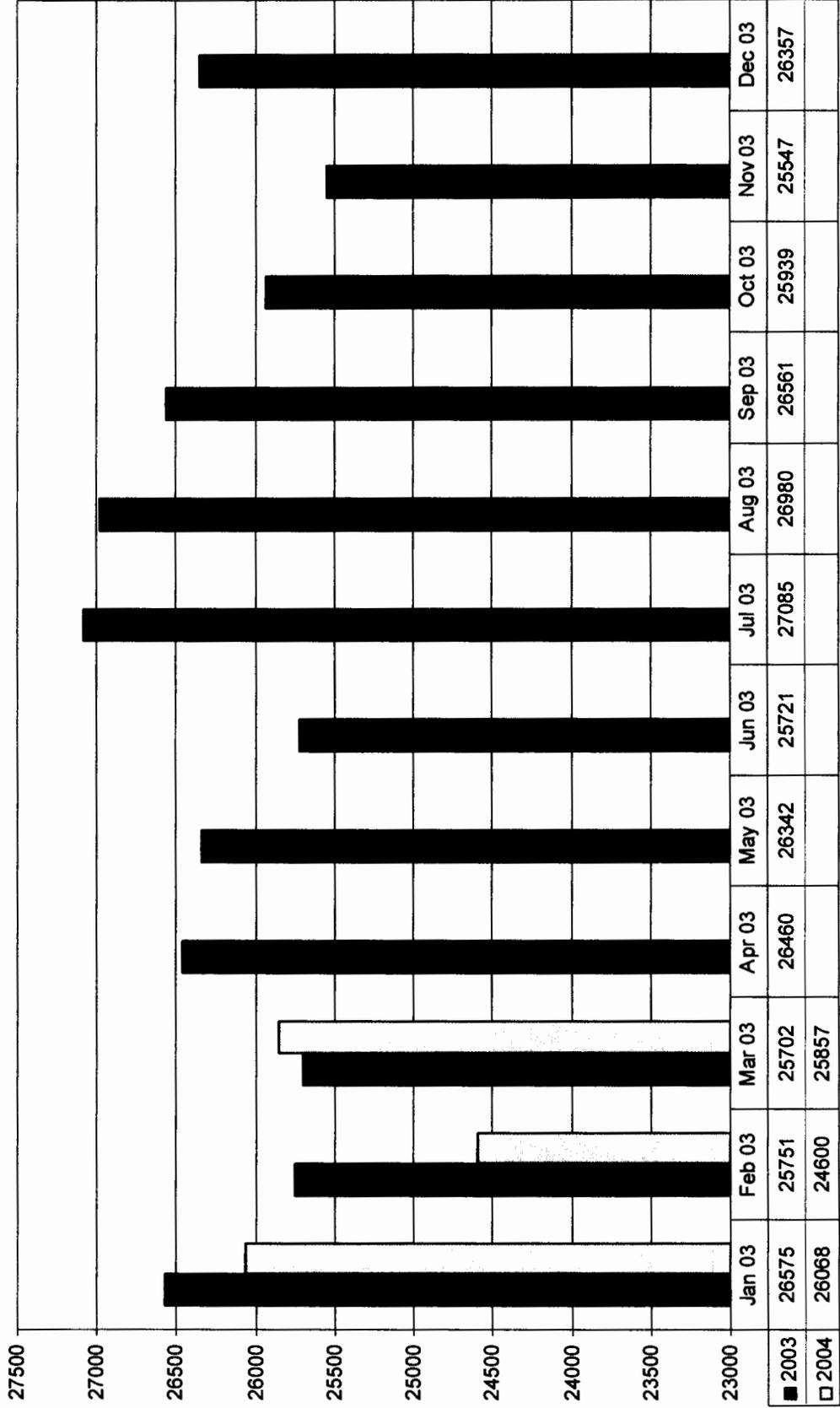


March 2004



Average Cars On Line

2003 - 2004

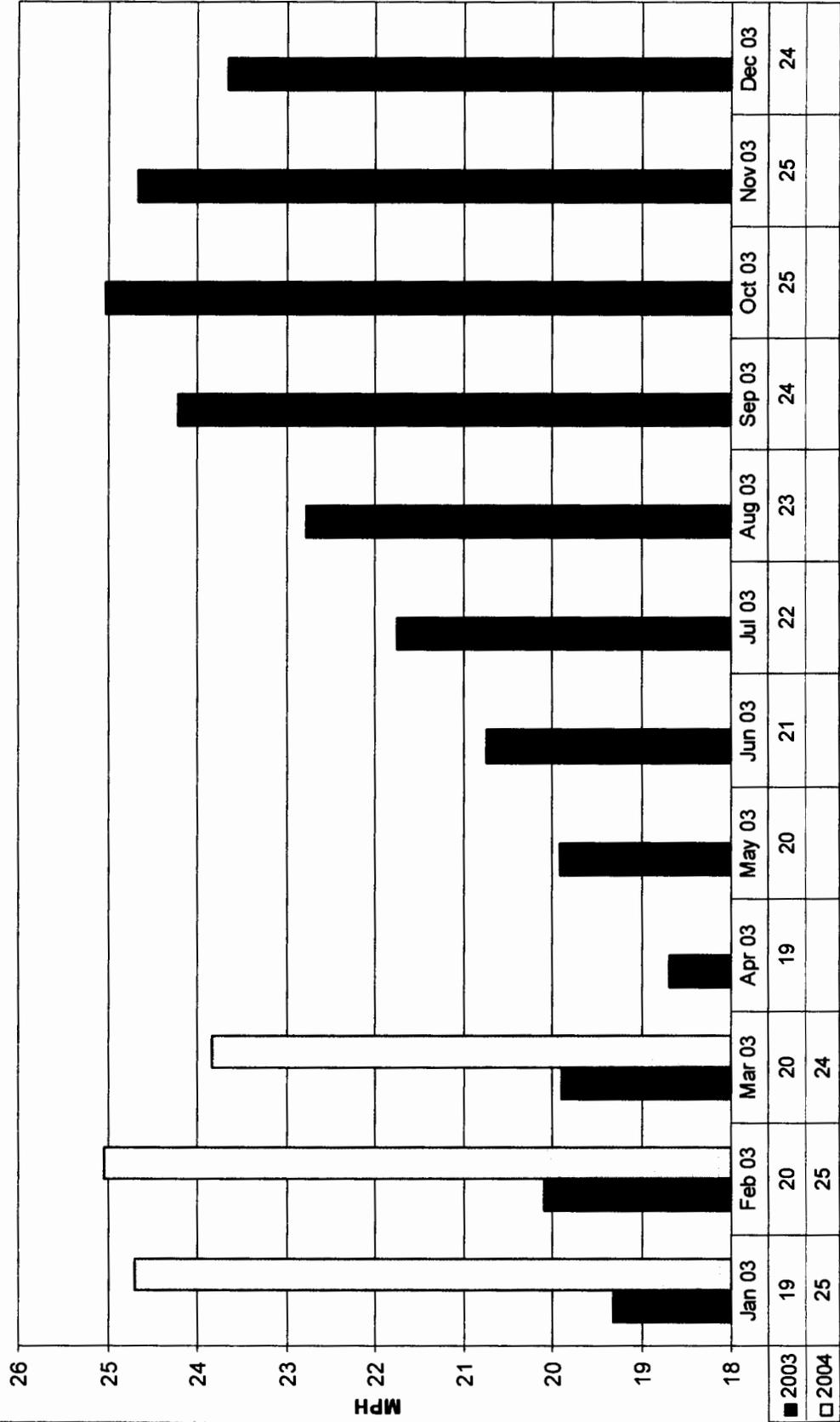


March 2004



All Trains Speed

2003 - 2004



March 2004



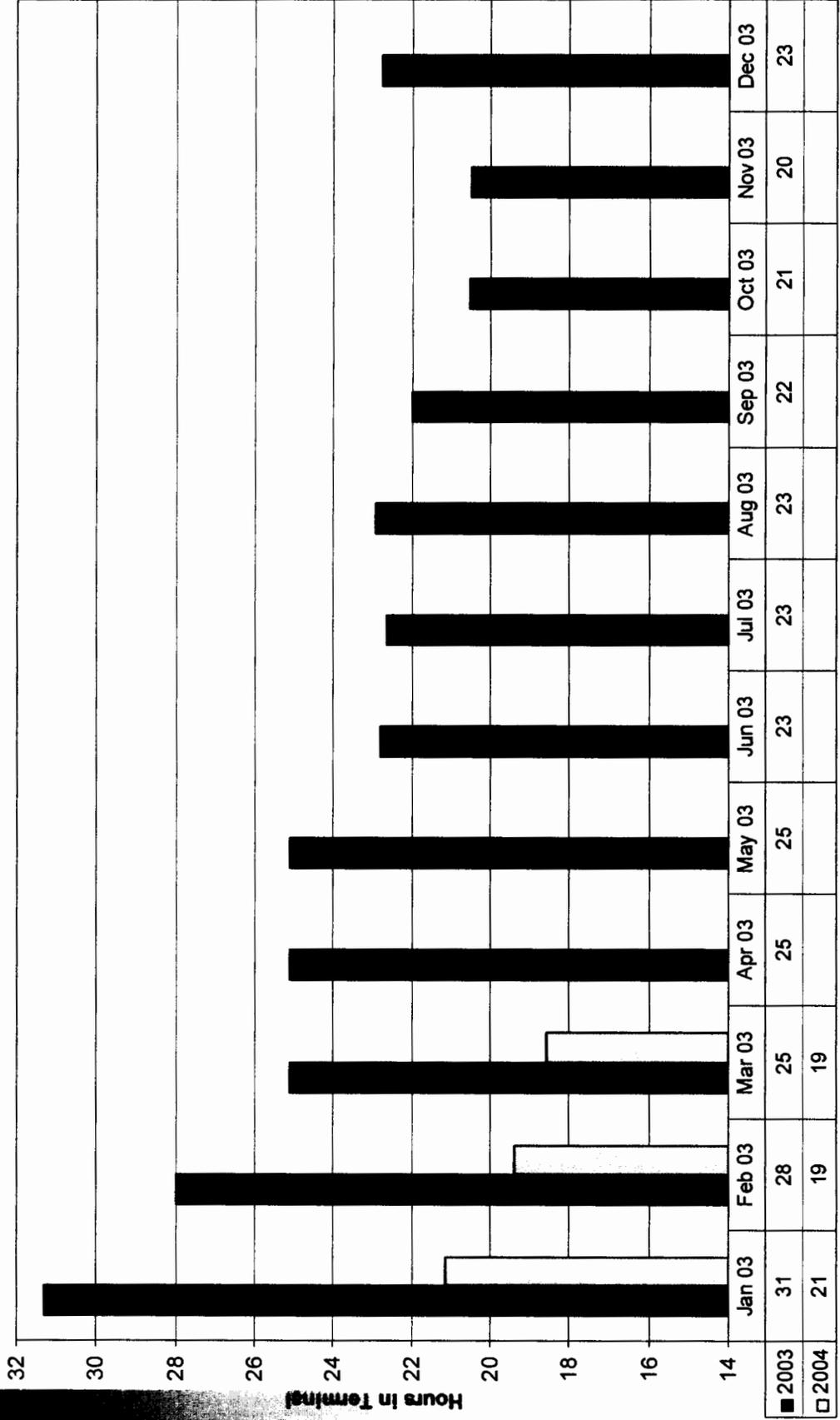
Slow Order Miles

- The engineering department's goal is to maintain less than five slow order miles at any given time.
- In the last two days of March and first two days of April, the KCSR and Tex-Mex averaged:
 - 5.2 miles and 15.75 slow orders on KCSR
 - 1.95 miles and 5.5 slow orders on Tex-Mex



KCS System Terminal Dwell

2003 - 2004

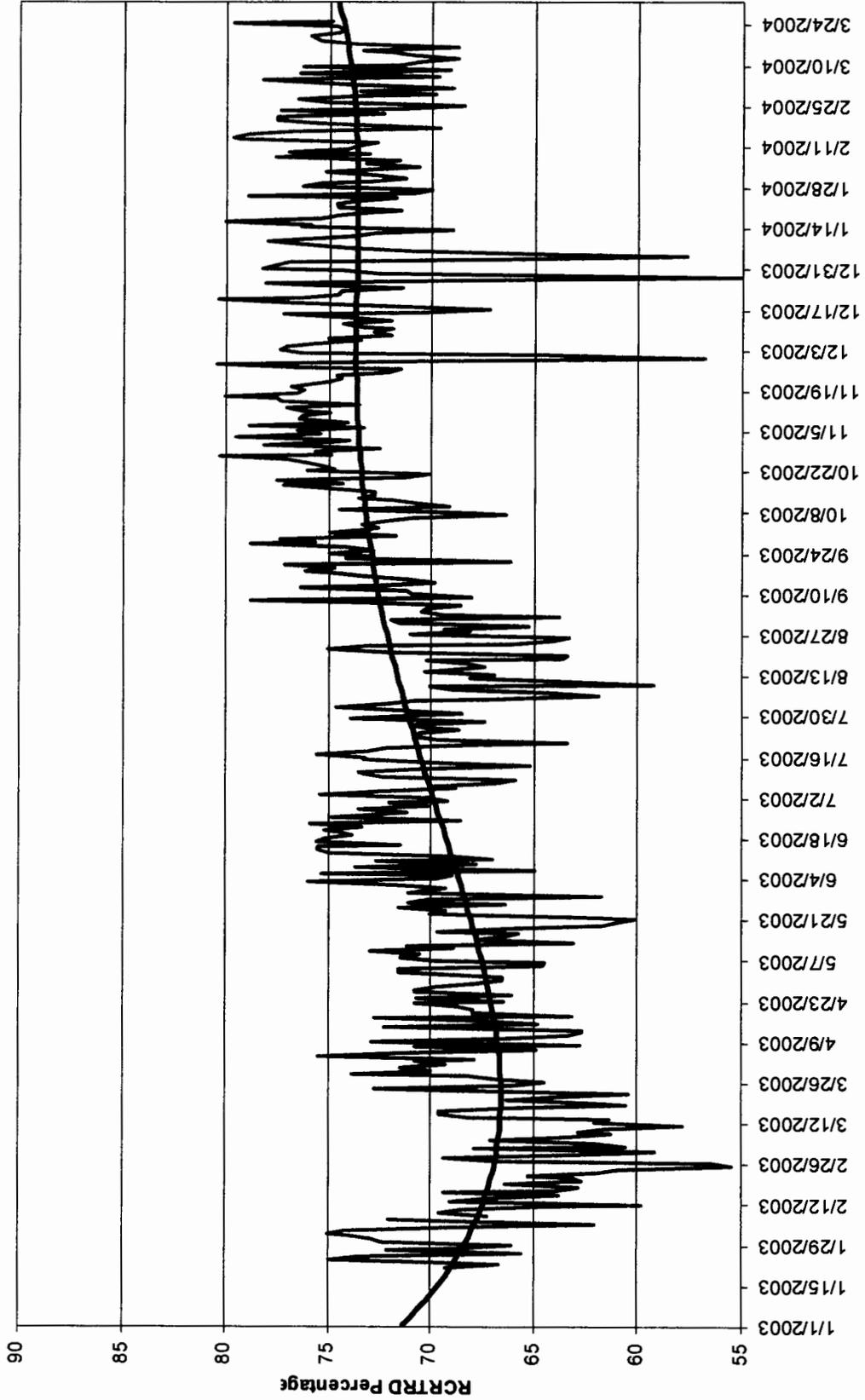


March 2004



Right Car Right Train Right Day

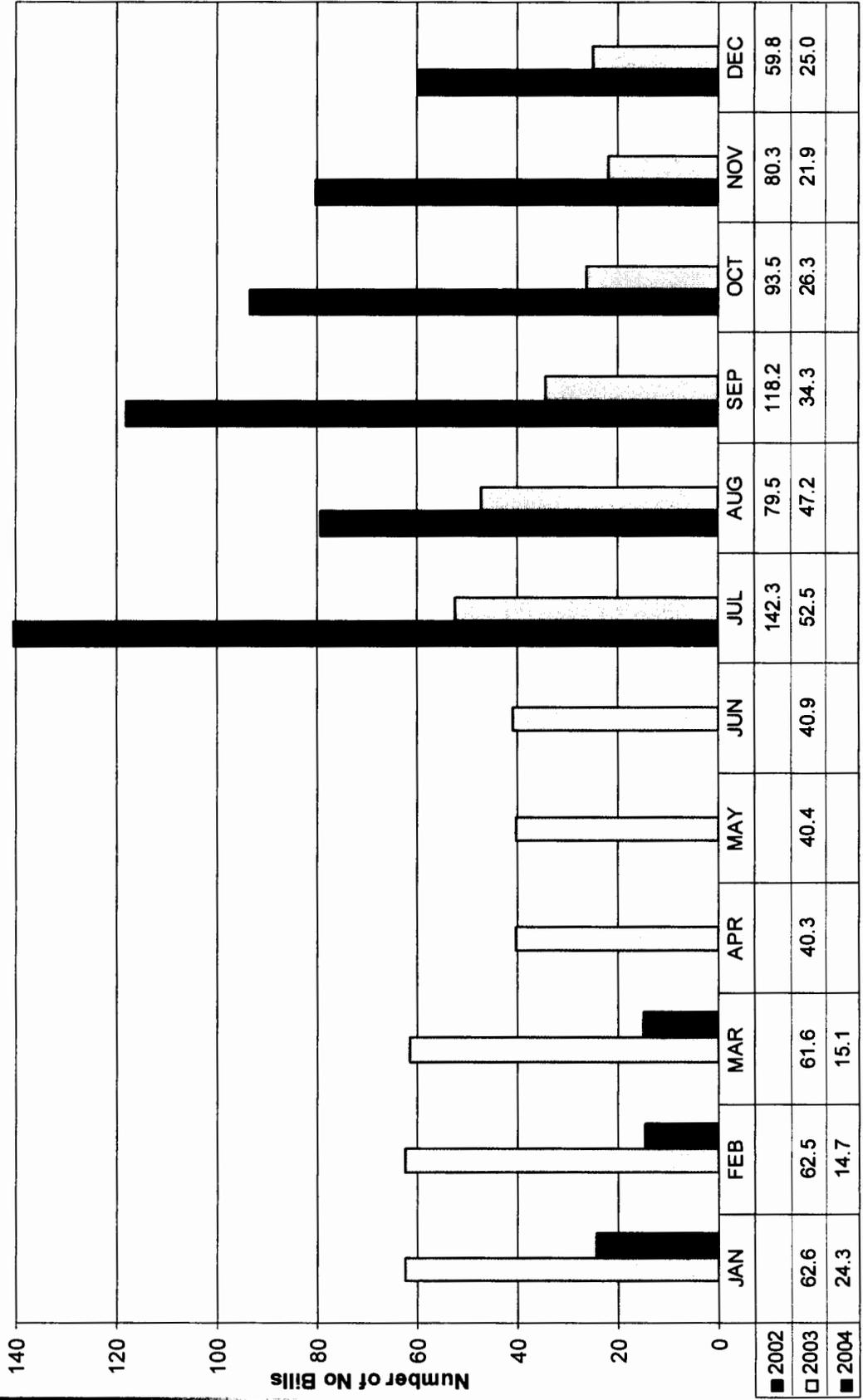
2003 - 2004



March 2004

System No-Bills

2002 - 2004

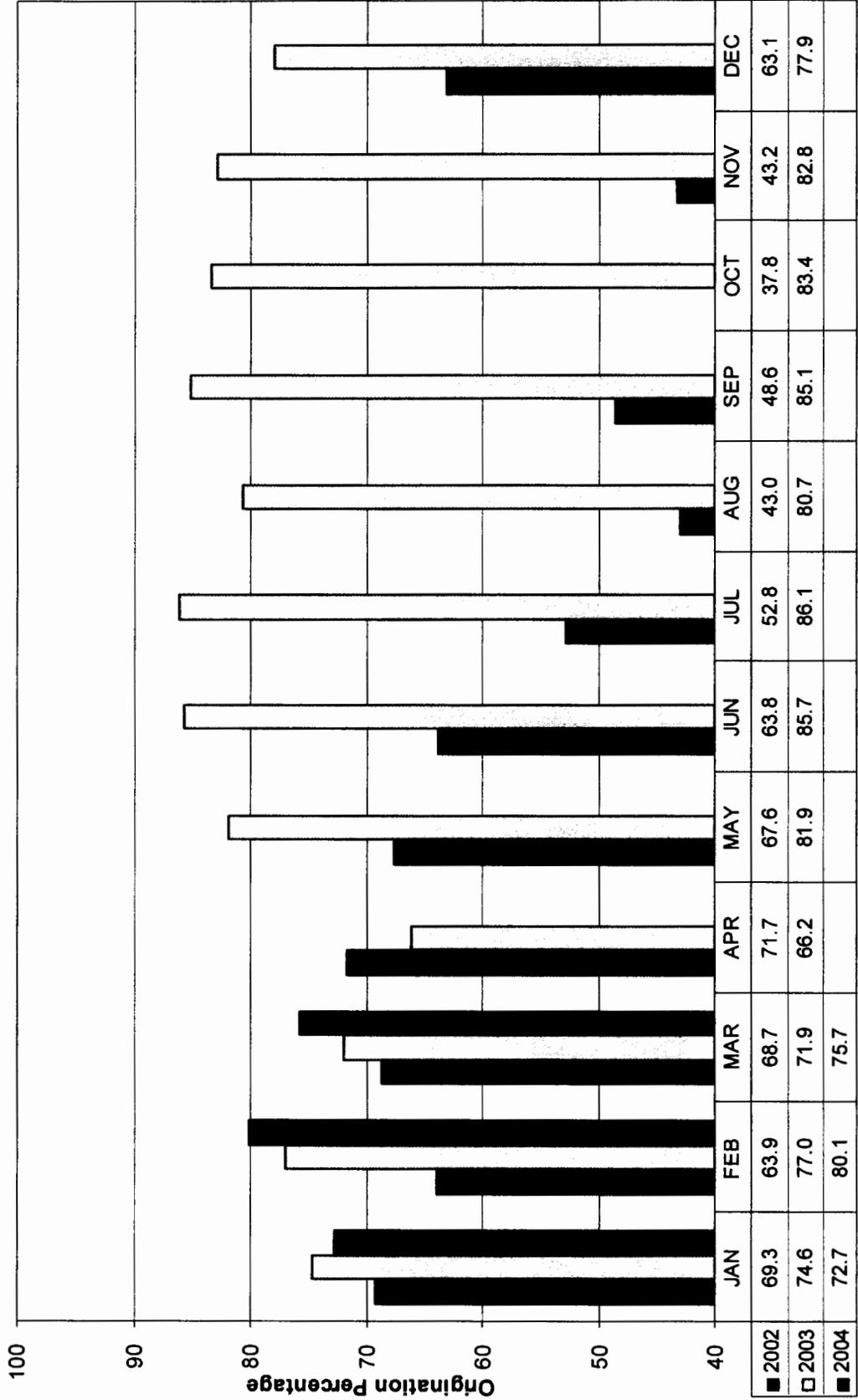


March 2004



On Time Origination

2002 - 2004



March 2004

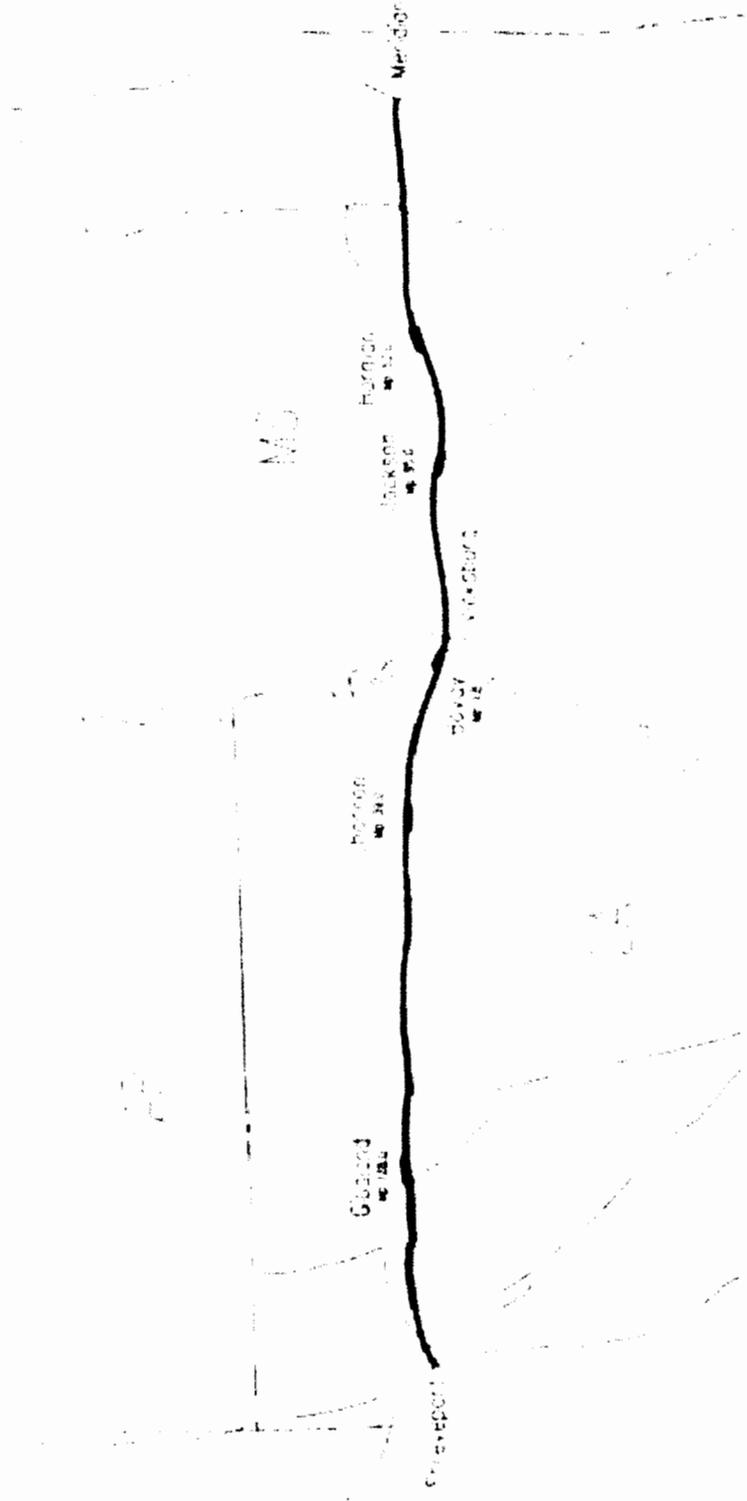




Efficiency and Strength through Capital Investments

Meridian Speedway
Meridian, MS to Shreveport, LA

Meridian Speedway



Sidings

- In 2003, two Meridian Speedway sidings were completed at Bovay and Gibsland, as well as an access road along side of Shannon siding.
 - At Gibsland, KCSR is now building a 40-car set out track to be completed late April. The set out will allow trains to pick up locals without using the passing siding.
- In March 2004, Harmon siding was completed.
 - Reduces previous 40 mile distance between sidings by half, cutting train wait time for meets and passes.
- In April 2004, construction will begin on a siding extension and engine set out track at Wade, Ark.
 - 10,000 feet of clear siding, as well as a set out track for ten locomotives for dropping off distributive power.

March 2004

Shreveport, La.



- In May 2004, the classification ladder will be reconstructed, including the replacement of 43 switches on the north end of Deramus Yard. The project will be completed within 15 days.
- In May 2003, 32 switches were replaced, 837 ties were installed and 36 cars of ballast were dumped on the south switching lead of Deramus Yard.
- These upgrades will improve safety and increase efficiency of the switching operation to meet growing traffic volumes.

Monroe, La.



- In April 2004, construction began on a two-mile track paralleling the existing main line from west Magenta to the east end of the rail yard at Monroe.
- When completed, this line will become part of the main line and the existing main line will become a lead for the yard's switching operation.
- The project will be completed within six months.

Vicksburg, Mississippi

- On October 31, 2003, KCSR closed on a real estate transaction purchasing property adjacent to the main line in Vicksburg and will take possession of the land on or before May 31, 2004.
- Design work is underway and construction to realign the main line is intended to begin May 1 and to be completed within four months.
- This project will improve train operations/handling and safety by reducing curvature from a 17 to a 10 degree curve.



Jackson, Mississippi

- Construction of a double track main line between the CN crossing and the west end of Jackson was completed in February 2004.
- Installation of a main track between the west end of High Oak Yard and the CN main line will begin in early May and will be completed by November.
- These projects will improve train speed through Jackson.

Power Switches & CTC

- In the last two years, 17 power switches were installed on the Meridian Speedway with 13 more to be installed in 2004.
 - Power switches were installed on each side of Gibsland, Magenta and Monument sidings for a total of six so far this year.
- Power switches eliminate the need to stop trains for train crews to manually line switches to move across the system.
- Plans are underway to install Centralized Traffic Control (CTC) in Shreveport Yard and at the east end of the Greenville pass.

Pittsburg, Ks.

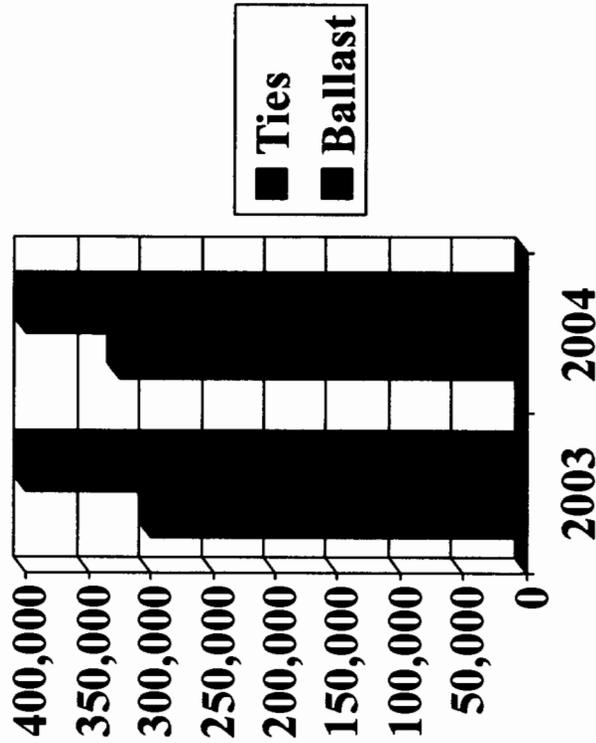
- In March 2004, a new wye track was completed in Pittsburg, turning locomotives more efficiently.
- A Pittsburg Yard office is currently under construction across the street from the current yard office, making way for the new 23rd Street overpass. Upon completion in July 2004, the old office will be torn down.



Ties, Ballast and Rail



- In 2003, KCS adopted the industry standard of installing 136-lb. rail on tangents and 141-lb. head hardened rail on curves on the main line.
- In 2004, 25 miles of rail and 326,000 cross ties will be relayed, 27 turnouts will be replaced and \$5 million will be spent on bridge repairs and replacements.
- KCS is investing in infrastructure to meet or exceed our customers' expectations.



Locomotives

- In 2003, KCSR spent \$13 million on the overhaul of locomotives and major sub-assemblies.
- In February 2004, KCSR exercised its option to purchase 74 locomotives that it had previously leased, including (21) SD40-3's, (10) GP38-2's, (28) GP40-3's, (5) MP1500's and (10) SW1500's.
- Beginning in March 2004, 25 former Conrail SD50's were added to the KCS fleet.
- KCSR currently maintains a fleet of approximately 525 locomotives.



Fueling Efficiency

- Fuel supply is fortified with construction of a pipeline to supply fuel in Heavener, OK.
- Pipeline connection will be made in April 2004.
- Loading rack will be completed in May 2004.
- Negotiations underway for a similar resource near Shreveport by Q2 2005.
- Reduce shipment delays through Heavener, OK.



Tex-Mex Rehabilitation

- Completed in 2003:
 - Relay of 15 curves
 - Relay and rehabilitation of four sidings
 - Installation of 14 new turnouts
 - Installation of 90,000 main line ties and 10,000 siding ties
 - Rehabilitation of 47 road crossings
- Improves Tex-Mex service reliability.



Efficiency through Technology

Management Control System (MCS)

- Installed on KCSR in July 2002, MCS provides management with tools to support a disciplined operation with car scheduling capabilities at the core of the business processes.
- MCS enforces structured, disciplined event reporting that ensures that accurate records are maintained for the entire inventory.
- The new processes result in improved operating efficiency that increases car velocity.

New Features in MCS

- In 2003, Interline Service Management (ISM) was integrated into MCS, making freight transportation across multiple railroad more seamless.
 - KCSR can plan for inbound traffic from connecting carriers.
 - Trip plans shared across connecting carriers.
 - Improved customer communication and planning.
 - Proactive shipment monitoring of customer traffic.
- In 2003, Locomotive Management System (LMS) was fully integrated into MCS.
 - Provides more accurate and current information to better manage and maintain the locomotive fleet.
 - AEI driven.



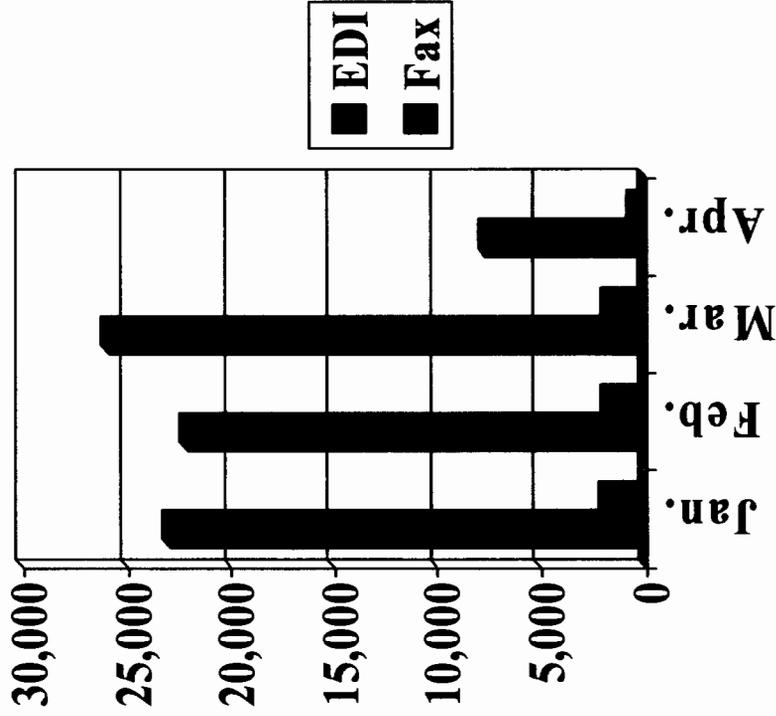
MCS on Tex-Mex

- MCS was seamlessly implemented on Tex-Mex in early April 2004.
 - Tex-Mex version includes same framework and basic functionality as KCS version.
 - Also includes components for transborder shipments
 - Automated Manifest System for northbound shipments from Mexico to the U.S.
 - Despacho Previo for southbound shipments crossing the border from the U.S. to Mexico.
- Implementation of MCS on TFM remains in progress.

Online Customer Request

- In May 2003, KCS introduced Online Customer Request, a tool making it easier to do business.
- Ensures that the service KCS provides is on time and the way the customer ordered, with direct customer involvement in the process.
- Services available in Online Customer Request include:
 - Ordering in cars from constructive placement, from a lease track and adding spotting instructions
 - Requesting intraplant switches
 - Rejecting empty cars, and
 - Releasing empty cars.

Customers Prefer EDI



- On average, 93% of customers are using Electronic Data Interchange (EDI) over faxing.
- EDI ensures greater accuracy and timeliness of the customer's request, by eliminating manual handling.

Enterprise Workforce Management

- An integrated crew management timekeeping system that captures time and mileage data to compute gross pay for the T&E workforce, as well as hours and gross pay for non-operating employees.
- Improves management of daily payroll expenses.
- Partially implemented in 2003, to be completed in 2004.
 - T&E implemented in three phases in 2004: Kansas City to East St. Louis, Eastern/Mid-South Division, All of KCS.
 - Followed by remaining line operations, mechanical department in Shreveport, the Customer Service Center, maintenance of way and signal departments.



New Service Offerings Bring Competitive Transportation Options

March 2004

Mobile, Alabama Access

- KCSR began serving Port of Mobile, AL in January 2003 through a combination of haulage and trackage rights with CN from Jackson, MS to the Port.
- Agreement provides customers with access to all facilities served by the Alabama State Docks, the Central Gulf Railroad and an interchange point with CSX.



Triangle Marine Industrial Park

- 408-acre industrial park opened in February 2003 in Beaumont, TX.
- Centrally located between Texas highways 69, 96, 287 and 347 and situated on top of a major pipeline corridor in the Beaumont enterprise zone.
- 23-acre rail yard (over a mile adjacent to KCSR's main line), 1,700 ft. Neches River frontage, 90-acre turning basin and three deep water docks with 35 ft. depth.
- Ideal for movement of liquid and dry bulk materials.
- Plenty of room for growth.



PABFAC Dry Bulk Transfer

- In August 2003, KCSR re-opened this facility in Port Arthur, TX.
- Operated by Kinder Morgan Bulk Terminals.
- 70 acres adjacent to yard with opportunities for loading soda ash and other dry bulk commodities.
- Annual potential of 300,000 tons.
- Provides more options for moving products.



Kansas City, Missouri Plastics TLC

- Relocated from downtown Kansas City, MO riverfront in September 2003 to a newly constructed, more efficient, 10-acre yard.
- Operated by Quality Carriers.
- 25% track capacity increase planned for 2004.
- Increases TLC operation efficiency.

Dallas, Texas TLC's



- In 2003, KCSR hired nationally recognized logistics firm, Warehouse Specialists to operate its two Dallas area TLC's.
- Serves paper, forest products and steel.
- Operator facility upgrades have already increased business 50% in 2003 and poises facility for growth.
- Greater access to Dallas/Fort Worth area.

Jackson, Mississippi TLC

- In November 2003, KCSR completed construction Phase II of IV.
- 55 acres operated by Kinder Morgan Materials Services
- Handles bulk plastics, food products, clay, forest products and steel.
- Track capacity to increase 25% in 2004.
- Annual 3,000 car potential by 2006.
- Greater access to Jackson area.





Enhancing Competition

NAFTA RailSM

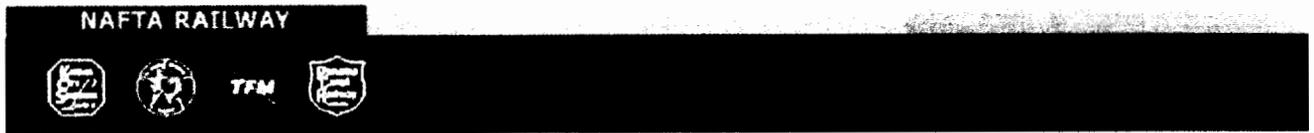
March 2004

Summary

- The NAFTA Rail transaction proposed in April 2003 would place KCSR, Tex-Mex and TFM under the common control of a single transportation holding company, NAFTA Rail, to be headquartered in Kansas City, Mo. As part of the proposed transaction, Kansas City Southern (KCS) would change its name to NAFTA Rail, which would be traded on the New York Stock Exchange.
- The transaction is in dispute between partners, KCS and Grupo TMM, S.A. However, on April 4, 2004, both parties signed a stipulation agreement stating that “The parties agree to discharge in good faith all of the obligations of the Acquisition Agreement.”
- KCS remains committed to this transaction and to being a strong rail competitor in the NAFTA trade corridor. KCS remains hopeful that KCS and TMM will find resolution to this dispute.



THREE



June 1, 2004

KAW River Railroad to provide some local switching in Kansas City

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Last week, KCSR notified its customers that beginning June 1, 2004, Kaw River Railroad, Inc. (KAW) will provide switching service to customers located on KCSR's and Kansas City Terminal Railway's tracks in Kansas City between approximately Grand Ave on the Missouri side and 25th Street on the Kansas side. KAW is a wholly owned subsidiary of Watco Companies, Inc. (Watco), a well-respected and widely recognized rail service provider that currently operates seven Class III railroads in nine states.

KCSR remains committed to providing optimum service to its customers, and is confident that KAW will provide local switching service that will ensure fulfillment of that commitment. Switching schedules, frequency of service and contact phone numbers will remain the same, with the addition of three KAW contacts: Mark McClellan, General Manager, 816-807-8687; Alan Elliott, Assistant Vice President Marketing, 620-231-2230; and Dan Linden, Regional Manager, 620-235-9636.

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NAFTA RAILWAY



June 22, 2004

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In mid-July, another 38 switches will be replaced, completing the north lead. In preparation for the switch installation, 6,000 ties were installed and additional switch ties will be installed from the north lead along Hollywood One and Two tracks. Upon completion of both the June and July projects, 50 cars of ballast will have been dumped.

Last summer, 32 switches were replaced, 837 ties were installed and 36 cars of ballast were dumped on the south switching lead of Deramus Yard, in less time than expected. This summer's planned improvements, coupled with the improvements completed last year will result in a complete rehabilitation of the north and south classification yard lead in Shreveport, improving the safety, efficiency and reliability of the switching operation to meet growing traffic volumes.

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June 22, 2004

KCSR receives unprecedented accolades from FRA Region Three

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Recently, the Federal Railroad Administration's (FRA) Regions Three and Five conducted an intensive inspection of KCSR's property. The inspection was a follow up to an inspection performed two years ago. Upon completion of the inspection, FRA regional administrator Fred Dennin proclaimed that he had never seen a railroad so completely change direction for the positive in such a short time in terms of rules compliance and safety processes and procedures.

To recognize KCSR for its effort, the FRA presented a plaque to vice president and chief mechanical officer Jim Fisk, and general director rules and testing Dennis Marzec, at the FRA's Region Three office in Atlanta, Ga. The plaque, which will be displayed in Shreveport, reads "for significant contributions and quick actions to eliminate long-standing safety concerns". Recognition of this kind is unprecedented by the FRA.

Preliminary reports indicate that the inspection of Region Five was favorable, as well. Fisk and Marzec are complimentary of the entire transportation and mechanical teams for their significant efforts to run a safer railroad.

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June 22, 2004

New Train Accident Prevention Team begins in-depth analysis

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On June 21st, Jerry Heavin senior vice president operations led the first meeting of the newly formed Train Accident Prevention Team in Shreveport, La. Meeting participants included J.R. Thornell general superintendent field operations, Mark Redd general superintendent transportation, John Foster assistant chief mechanical officer, Oliver Waltman track engineer and Buck Jones signal engineer. Dennis Marzec general superintendent rules and testing is team leader and Mike Nelson manager reporting systems is facilitator.

The purpose of the team is to provide greater structure to train accident prevention. Toward this end, the team will analyze accident data, which is reported to the Critical Incident Desk in the System Transportation Center. From the analysis, the team will drill down to identify root causes, develop action plans, track execution of those plans and measure results.

"The structure that has already been provided to the data capture process is giving us a comprehensive look at the big picture pertaining to accidents," said Jerry Heavin, senior vice president operations. "The Train Accident Prevention Team will apply that same structure and problem-solving principles to take action and get results."

An outcome of the first Train Accident Prevention Team meeting is a procedures document that outlines the team's objectives, roles and responsibilities. Additionally, the team agreed to begin an in-depth analysis of accidents at all major terminals.

The Train Accident Prevention Team is one of five sub-committee's of the KCSR Safety Steering Committee focusing on specific areas of safety.

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April 27, 2004

Fuel flows through new Heavener pipeline this week

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This week, fuel will begin flowing through the newly constructed pipeline in Heavener, Okla., fortifying KCSR's fuel supply. The 20-month Heavener pipeline project culminated last weekend with final tests and inspections. Hard data indicates that beginning with the first load of fuel, KCSR will save seven-cents a gallon. At three million gallons a month, the savings realized totals \$2 million dollars a year. Additionally, the shorter distance between fuel supplies in Kansas City, Mo. and Shreveport, La. will mean better Gulf fuel pricing, more reliable fuel availability and a reduction of tank cars on the railroad.

The pipeline project was initiated in 2002, when a Lake Charles, La. fuel supplier where KCSR obtained 60 percent of its fuel, announced that it would close its loading rack. The availability of fuel suppliers on line was limited and seeking fuel offline could involve significant increases in fuel and transportation prices. So KCSR's resourceful purchasing department identified a fuel source close to Heavener, Okla., a strategic location between fuel supplies in Kansas City, Mo. and Shreveport, La. on KCSR's primary north south line. A return on investment study indicated significant potential, so a decision was made in December 2002 to move forward with the project. Magellan Pipeline Company was contracted to build the pipeline and construction began in September 2003.

Almost all KCSR departments were involved in the pipeline project. With the purchasing department as the project leader, the engineering department developed the plan and facilitated right of way access. The real estate department organized the acquisition of right of way and clearances. The transportation and mechanical departments juggled a continuous supply of tank cars to ensure a fuel supply was available while the storage tank was down during construction. The tax department secured a terminal tax identification and fuel excise tax release for pipeline fuel. The legal and finance departments completed the necessary contracts and documentation. The environmental department ensured that the site met all standards for environmental quality.

The next phase of the Heavener pipeline project will include installation of the loading rack in June 2004. Meanwhile, negotiations are underway for a similar resource to be in place near Shreveport by the second quarter of 2005.

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NAFTA RAILWAY



April 7, 2004

FRA notes KCSR's progress

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Recently, Federal Railroad Administration (FRA) inspector Mark Carter visited KCSR. Upon thorough inspection in Shreveport and Monroe, La., no violations were found. "It is not very often that I can go on an inspection and not find any defects," said Carter. "I want to compliment those involved in the very significant improvement I note from earlier train rides."

In an email to KCSR, Carter went on to explain that of particular interest to him was the significant improvement in dispatcher to train communications when issuing Direct Traffic Control (DTC). FRA regulations require that specific information is included when issuing DTC and Carter witnessed no instances when KCSR was not in complete compliance. "The radio procedures in general set a compliant and professional tone that is conducive to a clear understanding of instructions and authorities," said Carter. Further, Carter explained that the two crews he rode with did an "outstanding job of demonstrating the desire, ability, knowledge and application of rules for safe operation."

Jerry Heavin, KCSR senior vice president operations said, "As part of our effort to become the safest railroad in North America, we have placed an emphasis on rules compliance." In 2003, 1,200 plus transportation employees received general code of operating rules training. Additionally, 42,000 plus operations tests were performed in 2003, 12,000 more than 2002. Regular training and frequent testing continues in 2004, including continued education of general code of operating rules for all KCSR transportation employees to begin in May 2004.

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Submitted by	Category	Public
Doniele C Kane on 06/30 at 08:53 AM	Newsletter	

KCS News for June 29, 2004

Kansas City Southern **NEWS**

=====
A weekly publication for KCS Railway employees

June 29, 2004

KCSR closes 50 public grade crossings in five years

According to Louisiana Operation Lifesaver, Louisiana ranks in the top five states for collisions and fatalities at highway rail grade crossings. With Louisiana as a center of operation, KCSR is concerned about this status. KCSR is a staunch supporter of Operation Lifesaver in Louisiana and all ten states where KCSR operates. In addition, KCSR is doing its part to eliminate opportunities for highway rail grade crossing collisions.

Since June 1999, KCSR has closed 50 public, at-grade crossings. Five public crossings – two in Louisiana, two in Mississippi and one in Kansas, have been closed this year with a goal of 15 by year's end. The combined 50 crossing closures have eliminated over 223,000 opportunities annually, for a highway rail grade crossing collision. At any one time, KCSR is in the process of either identifying crossings and incentives, or negotiating those incentives with local or state entities for the closure of approximately 100 crossings system-wide.

Crossing closure is an extensive process that involves multiple departments within the railroad. The process begins by identifying and targeting a crossing for closure. Obvious targets are redundant crossings or those with low vehicle traffic. Since every closure target has its own set of challenges, some closures occur more slowly or are temporarily dropped. Among the current 100 closure targets, some are under consideration and others are tied to warning device upgrade projects or state corridor projects. In addition to aggressively pursuing crossing closures, KCSR has a stringent approval process to limit new crossings.

Operation Lifesaver is a national, non-profit education and awareness program dedicated to ending tragic collisions, fatalities and injuries at highway-rail grade crossings and on railroad rights of way. To accomplish its mission, Operation Lifesaver promotes education, enforcement and engineering.

New team focuses on safe equipment and tools

On June 24th, the first meeting of the KCSR Safety Equipment and Tools Committee was held at corporate headquarters in Kansas City, Mo. The committee's purpose is to ensure that safe, quality, reliable and cost-effective equipment and tools are available to KCSR employees. As such, the committee will set policies and guidelines and establish equipment and tool programs. For example, one of the committee's first endeavors is to review and make recommendations for the prescription safety glasses program.

Facilitated by Tom Campbell, meeting participants included Mark Dabney, terminal superintendent, Dallas, TX, representing transportation; Rex Allen, manager work equipment, Shreveport, La. and Larry Clark, roadmaster, Pittsburg, Ks., representing engineering; Chuck Hartman, coordinator rules and training and David Bird, general manager materials, Shreveport, La., representing mechanical; and Mel Phillips, service systems analysts, Kansas City, Mo., representing the purchasing department.

The Safety Equipment and Tools Committee is one of six, cross-functional sub-committees of KCSR's Safety Steering Committee. KCSR's safety approach is to empower and place greater accountability on front line supervisors to use their specific expertise and knowledge of their own service territories to ensure safe operations, while receiving the necessary support of senior management. KCSR' safety vision is to become the safest railway in North America.

KCS Habitat for Humanity volunteers break to celebrate progress

On Saturday, June 26th volunteers hung ledger board to support floor joists for the second floor of the "House that KCS Built" for Habitat for Humanity in Kansas City's urban core. On July 3rd, volunteers will take the day off to celebrate the holiday and their progress. After the long, refreshing holiday weekend, sign up to volunteer on Saturday, July 10th, as many volunteers are needed. If you can spare the day for a good cause, call Jaclyn Smith at 816-983-1871.

New featured items this week in Company Store

Select items are now available at 15% off the original prices, while supplies last in the KCS online Company Store. Go to the Employees and Friends section of www.kcsi.com to check out the following great buys:

KCS497	Zippered Portfolio	Originally \$54.00	Now \$45.90
KCS507	3 Way Safety Flashlight	Originally \$11.00	Now \$ 9.30
KCS501	Stainless Steel Thermos	Originally \$19.55	Now \$16.60
KCS502	Stainless Steel Mug	Originally \$11.00	Now \$ 9.30
Long Sleeve Denim Shirts		Originally \$36.50	Now \$31.00

KCS78LD Ladies
KCS78MD Men's

Key operating and performance indicators

1. Inventory

Total Cars On Line –	24,545	Foreign Cars On Line –	3,542
30 Day Goal –	Less than 26,000	30 Day Goal –	Less than 3,300

2. Velocity

Intermodal Trains –	30.51 mph	Manifest Trains –	25.49 mph
30 Day Goal –	At least 28.00 mph	30 Day Goal –	At least 27.50 mph

3. Yard/Terminal

Dwell – 24.60 hours
30 Day Goal – Less than 20.00 hours

4. Average Tons/Train

Average Tons/Train – 5,201
30 Day Goal – More than 6,000

5. On-Time Coal Service Performance-MTD

Cycle times – 36.60 hours
Goal – Less than 45.00 hours

6. Reportable Injuries

YTD 2004 -	45
Through June 2003 -	35
2003 -	83

7. Highway Grade Crossing Collisions

YTD 2004 -	63
Through June 2003 -	45
2003 -	111

8. KCSR Operating Ratio

First quarter 2004 –	83.9%
2004 Goal –	84.5%

9. KSU Stock Performance

Last week high - \$15.10
Last week low - \$14.19

KCS News is published weekly by the corporate affairs department. Please direct questions and concerns to the editor, Doniele Kane at 816-983-1372 or doniele.c.kane@kcsr.com.

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Submitted by	Category	Public
Danielle C Kane on 06/23 at 11:57 AM	Newsletter	

KCS News for June 22, 2004

Kansas City Southern **NEWS**

A weekly publication for KCS Railway employees

June 22, 2004

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KCS Timetable No. 6 released this week

On June 21st the first shipment of the new KCS Timetable No. 6 was released from Shreveport to Kansas City and East. St. Louis and will be followed by shipments to all major yards and terminals for distribution to employees by operating department officials. Employees are encouraged to review local territory and system special instructions to familiarize themselves with any changes. Timetable No. 6 is effective July 1, 2004.

New Train Accident Prevention Team begins in-depth analysis

On June 21st, Jerry Heavin senior vice president operations led the first meeting of the newly formed Train Accident Prevention Team in Shreveport, La. Meeting participants included J.R. Thornell general superintendent field operations, Mark Redd general superintendent transportation, John Foster assistant chief mechanical officer, Oliver Waltman track engineer and Buck Jones signal engineer. Dennis Marzec general superintendent rules and testing is team leader and Mike Nelson manager reporting systems is facilitator.

The purpose of the team is to provide greater structure to train accident prevention. Toward this end, the team will analyze accident data, which is reported to the Critical Incident Desk in the System Transportation Center. From the analysis, the team will drill down to identify root causes, develop action plans, track execution of those plans and measure results.

"The structure that has already been provided to the data capture process is giving us a comprehensive look at the big picture pertaining to accidents," said Jerry Heavin, senior vice president operations. "The Train Accident Prevention Team will apply that same structure and problem-solving principles to take action and get results."

An outcome of the first Train Accident Prevention Team meeting is a procedures document that outlines the team's objectives, roles and responsibilities. Additionally, the team agreed to begin an in-depth analysis of accidents at all major terminals.

The Train Accident Prevention Team is one of five sub-committee's of the KCSR Safety Steering Committee focusing on specific areas of safety.

Administrative network coordinators convene in Kansas City

This week, KCSR administrative network coordinators from Shreveport, La. and Jackson, Miss. are gathered in Kansas City, Mo. The group is receiving diversity training and developing a process for personnel database reporting, such as training data, changes to position status, address and phone number changes, use of company equipment assignments, etc. The focus of the discussion is on efficiently and effectively using PeopleSoft software to track information pertaining to operating personnel.

Earlier this year, the network was formed to ensure the three functional areas within the operating department: transportation, mechanical and engineering, consistently follow the same administrative processes and procedures for managing personnel, and that those procedures are consistent with corporate human resources policies. Claudia Stilwell is the coordinator for the network, which is comprised of Holli Kenner representing transportation-field operations, Claudette Reimonenq representing the System Transportation Center and the Customer Service Center, David Owens representing mechanical, Charles Wright representing engineering and Deana Smith managing discipline for the transportation department.

KCSR announces new appointments

Please join KCSR in welcoming the following new brakeman trainees:

Jose Barbo, Shreveport, La.	David Baugh, Artesia, Miss.
Jonathan Boone, Shreveport, La.	Ronald Calhoun, Heavener, Okla.
Steven Doyle, Mossville/Lake Charles, La.	Roland Garner, Bossier City, La.
Jereme Hall, Heavener, Okla.	John Hatcher, Artesia, Miss.
Rico Henderson, Meridian, Miss.	Douglas Hill, Heavener, Okla.
James Holland, Jr., Pittsburg, Ks.	Brandon Jimerson, Bossier City, La.
Eddie Keahey, Wylie, TX	Jeffrey Klosterman, Shreveport, La.
Jordan Langlois, Shreveport, La.	Nicholas Lee, Shreveport, La.
Gordon May, Mossville/Lake Charles, La.	Dewey McKnight, Jr., Artesia, Miss.
Jeffrey Meyer, East St. Louis, Ill.	Derrick Scales, Wylie, TX
Malcolm Smoot, Meridian, Miss.	Kevin Sullivan, Meridian, Miss.
Rufus Trevillion, Jr., Mossville/Lake Charles, La.	Josh Wickware, Pittsburg, Ks.
Danny Washington, Mossville/Lake Charles, La.	

Please also welcome the following new employees:

- Clay Burns, B&B Helper, Shreveport, La.
- Ross Coker, Customer Service Engineer, Kansas City, Mo.
- Jason Williamson, B&B Helper, Shreveport, La.

Volunteers needed to begin second floor of Habitat for Humanity house

Many hands make light work, so please invest one of your Saturdays in community volunteerism at KCS' Habitat for Humanity house, which is under construction in Kansas City, Mo.'s urban core. The first floor exterior walls have been poured and braces have been removed. Volunteers also put up all the interior walls on the first floor. This coming Saturday, floor joist installation for the second floor will begin.

If you're not available this Saturday, sign up to volunteer another Saturday by calling Jaclyn Smith at 816-983-1871. All volunteers receive a free "House that KCS Built" t-shirt.

New featured items this week in Company Store

Select items are now available at 15% off the original prices, while supplies last in the KCS online Company Store. Go to the Employees and Friends section of www.kcsi.com to check out the following great buys:

KCS120	Computer Briefcase	Originally \$31.00	Now \$26.30
KCS493	Desk Clock	Originally \$35.00	Now \$29.70
KCS505	Stadium Cups (12 pack)	Originally \$ 8.75	Now \$ 7.40
KCS79	Men's/Ladies Twill Shirts (Khaki or White)	Originally \$39.00	Now \$33.10

Key operating and performance indicators

1. Inventory

Total Cars On Line – 23,656	Foreign Cars On Line – 3,493
30 Day Goal – Less than 26,000	30 Day Goal – Less than 3,300

2. Velocity

Intermodal Trains – 28.49 mph	Manifest Trains – 26.00 mph
30 Day Goal – At least 28.00 mph	30 Day Goal – At least 27.50 mph

3. Yard/Terminal

Dwell – 23.57 hours
30 Day Goal – Less than 20.00 hours

4. Average Tons/Train

Average Tons/Train – 4,104
30 Day Goal – More than 6,000

5. On-Time Coal Service Performance-MTD

(as of June 20, 2004)

Cycle times – 36.30 hours
Goal – Less than 44.10 hours

6. Reportable Injuries

YTD 2004 - 43

Through June 2003 - 35
2003 - 83

7. Highway Grade Crossing Collisions

YTD 2004 - 58
Through June 2003 - 45
2003 - 111

8. KCSR Operating Ratio

First quarter 2004 - 83.9%
2004 Goal - 84.5%

9. KSU Stock Performance

Last week high - \$14.39
Last week low - \$13.60

KCS News is published weekly by the corporate affairs department.
Please direct questions and concerns to the editor, Doniele Kane at
816-983-1372 or doniele.c.kane@kcsr.com.

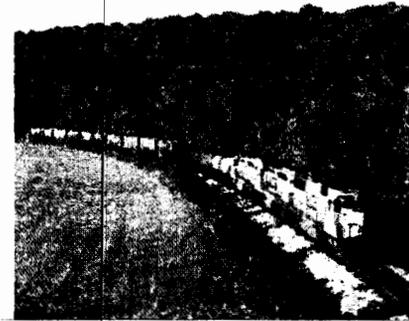
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FIVE



KANSAS CITY SOUTHERN CONNECTIONS

A CUSTOMER NEWSLETTER FOR THE NAFTA RAILWAY



KCSR outperforms other railroads in data quality

In 2003, KCSR began full participation in the railroad industry's Interline Service Management (ISM) initiative. ISM is an industry-wide solution which is aimed at giving each participating railroad the ability to monitor and manage its performance on each shipment relative to the service that was sold to the customer, with shipment status and ETA information being available to the shipper on a real time basis. In just a few months, KCSR has outperformed several larger railroads in data quality pertaining to ETA, and is outpacing some railroads in overall data quality.

Back in the 1980's, the industry began to understand that to compete with trucks, it must be able to offer a multi-railroad service that could be defined and measured, and from those measurements corrective actions taken as required. Railinc has the task of monitoring and

reporting to the industry's members their data accuracy and timeliness on an agreed grading system. Railinc is the railroad industry's information technology engine through which interline data is exchanged and in the case of ISM, its quality is reported via one neutral source.

Prior to the implementation of its Management Control System (MCS) in 2002, KCSR did not have the technology to generate trip plans for individual shipments and therefore did not have the data to communicate the related ISM information to Railinc. Following enhancements to MCS, ISM was piloted with Canadian National at Jackson, MS. Initial ISM system-wide implementation began in October 2003 and was fully implemented by the close of 2003, allowing KCSR to electronically communicate with all interchanging Class I railroads.

UPS recognizes KCSR for 'perfect' service

Recently, Mike Haverty, chairman, president and CEO of KCS received a letter from UPS vice president of transportation, Tony Poselenzny, recognizing KCSR for exceeding more than 135 days without a service failure. Poselenzny explains in his letter that in the peak season of 2003, UPS experienced volume growth not seen since 1999.

Specifically, the letter thanks the KCSR team that made it possible to provide 'perfect service' during the month of December. "We know this responsibility does not come without good plans and day to day execution of those plans." Further, Poselenzny explained, "The challenges of continuing perfect service and exceeding 365 days and beyond requires 24/7 attention to detail and pre-acting to events, something Kansas City Southern Railway has demonstrated time and time again."

KCSR is dedicated to continuing service excellence to UPS and all its customers.



NAFTA
RAILWAY



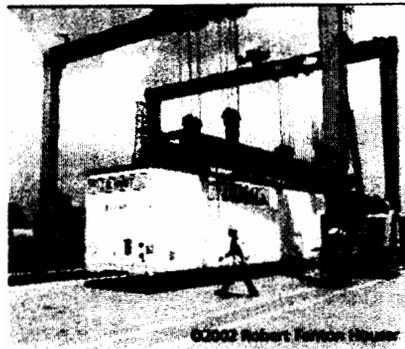
KCSR embraces Responsible Care® Management System

Since 1999, KCSR has been a Responsible Care® partner. Responsible Care® is an American Chemistry Council initiative designed to advance and achieve positive environmental, health and safety practices for its member companies. Since that time, the program has moved beyond its previous codes of management practices to achieve greater environmental, health and safety performance with a process called Responsible Care Management System (RCMS). KCSR is embracing the RCMS process in all of its environmental, health and safety programs.

"We are currently working closely with our Responsible Care® sponsor, Dupont and a consulting firm to facilitate implementation of RCMS into KCSR's environmental health and safety programs," said Chet Culley, general director environmental quality. Culley serves as a code steward and KCSR's primary Responsible Care® coordinator.

RCMS replaces the current practice of applying six codes (e.g. community awareness and emergency response, distribution, employee health

and safety, pollution prevention, process safety and product stewardship) with a combination of 106 management practices. Instead, relevant aspects of the existing codes are subsumed into a RCMS that is based on benchmarked best practices of leading private sector companies, initiatives developed through the Global Environmental Management Initiative, International Standards Organization and other bodies, and requirements of national regulatory authorities. For more information about RCMS, visit www.americanchemistry.com.



JB Hunt rates KCSR's service 'stellar'

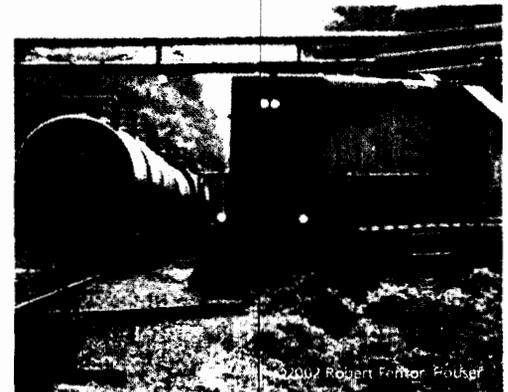
Recently, JB Hunt recognized KCSR as an outstanding service provider. JB Hunt vice president of operations, Mike Howard, explained, "Since April 2003, KCS' service has been stellar. For year to date 2004, KCS has been a top performer every week when measuring on-time performance for our customers."

"Our joint strategy is to take trucks off the road and put them on the rails," said Michael Smith, KCSR vice president marketing automotive and intermodal. "Providing consistent, reliable service is the only way to not only take trucks off the road, but to convince shippers who try rail service, to stay with rail service."

Smurfit benefits from KCSR's personal approach

At the close of 2003, Smurfit Stone Container ranked KCSR its top rail carrier for on-time performance. The performance can be attributed to close, ongoing communication between mill personnel and the KCSR operating and sales teams, especially Nick Pagano, director of sales, Chad Devenney, trainmaster, Brenda Hughlon, market manager and Sarah Kate Dover, account development manager.

"Although KCS is a Class I railroad, we can provide the personal attention of a smaller regional railroad to ensure our customers' individual needs are being consistently met," said Larry Stevenson, senior vice president marketing and sales. "We strive to provide a personal approach to all of our customers."



New Marketing & Sales Team Appointments

Mike Bilovesky has been promoted from director marketing agriculture and minerals to assistant vice president agriculture and minerals.

The role of Jeff Sheldon, assistant vice president marketing has expanded beyond coal to include forest products, metals, military, chemicals and petroleum products.

Robbie Tillman-Pfiefer has been added to the team as a marketing account director in Houston, TX. Also new to the team are market managers, Larry Doolittle who is responsible

for petroleum and Mexico pricing, Erin Clark who is responsible for pulp and paper products and Erica Wilson who is responsible for intermodal.

Ernie Anson has been promoted from assistant market manager to market manager, agriculture, gases and organic chemicals.

If you need assistance reaching any member of the marketing and sales team, contact the department's new administrative assistant, Shannon Lundberg at 816-983-1445.

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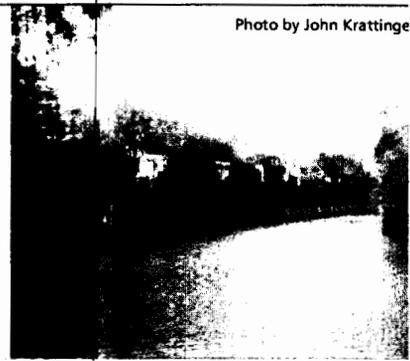
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KCS Connections is a newsletter for customers. Please direct feedback to the editor at 816-983-1372 or doniele.c.kane@kcsr.com.



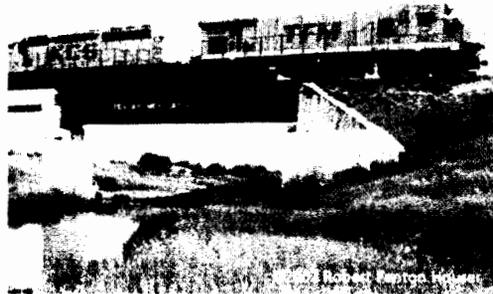
KANSAS CITY SOUTHERN CONNECTIONS

A CUSTOMER NEWSLETTER FOR THE NAFTA RAILWAY

MCS on KCSR, Tex-Mex strengthens NAFTA Railway

In April 2004, KCSR's Management Control System (MCS) was seamlessly implemented on Tex-Mex. Periodic check-ups indicate that no major train delays attributable to MCS have occurred, and that some of the benefits of MCS are already being realized. The true strength of the NAFTA Railway is the ability to seamlessly run trains between the U.S. and Mexico, and MCS is making it easier than ever before.

With better information available in MCS, KCSR/Tex-Mex can tell TFM how northbound trains should be blocked to minimize the complexity of the operation and prevent Tex-Mex



from having to switch traffic enroute from TFM to KCSR. For example, grain empties are now blocked and returned on a solid train, reducing the length of the MXJA train and increasing velocity. More importantly, because empty equipment is returned faster, our customers are able to use leased equipment more than once, improving fleet utilization and making the NAFTA Railway a more competitive transportation option.



BP Amoco ranks KCSR TLC among best in nation

Recently, BP Amoco ranked KCSR's plastics TransLoad Center (TLC) in Kansas City, Mo. among the best in the nation, tying with another carrier for first place in the BP Amoco transload system, according to a first quarter performance review. The review measures safety and operational performance, communications and reporting, and management and operational support, with bonus points for innovations and extraordinary efforts.

The newly constructed and more efficient, 10-acre TLC adjacent to Coburg Yard opened in September 2003, following the close of the

downtown facility. The new TLC can hold 170 cars compared to 65 cars at the downtown facility. The facility is operated by Quality Carriers, the largest tank truck company in the U.S.



Harriman Awards recognize KCSR, Tex-Mex

On May 6th, Edward R. Hamberger, president and CEO of the Association of American Railroads announced that 2003 was the safest year in history in terms of employee safety at the Harriman Rail Safety Awards Ceremony honoring railroads with the best employee safety records last year. Hamberger further noted that last year's employee casualty rate was almost 10 percent lower than it was in 2002, when the previous record was set.

On behalf of KCSR, Ron Poulsen, vice president and chief engineer, accepted a bronze medal at the ceremony for the Group B category of line-haul railroads with four to 15 million employee-hours. Poulsen was chosen to represent KCSR because the engineering department led KCSR's safety efforts by cutting the engineering department's injury frequency index by over 50 percent in 2003 over 2002.

(cont'd on the back)

NAFTA
RAILWAY





KCS builds home for family in need

In an effort to team-build and give back to the community, KCS has adopted a Habitat for Humanity house, fondly known as "The House that KCS Built" (or is building) in the urban core of Kansas City, Mo. Each Saturday since April 3rd, KCS volunteers have been on site constructing the home from the ground up. The project is also funded in part by KCS.

The marketing and sales department is coordinating the effort, which includes volunteers from KCS departments throughout Kansas City. Construction completion is expected this summer. KCS would like to thank Bartlett and Company, who employees volunteered alongside KCS on May 1st.

(cont'd ...Harriman Awards)

Representing Texas Mexican Railway (Tex-Mex) was safety manager Victor Garcia and yard engineer Wallace Guerra, who will retire this year with 36 years of service and no injuries. Tex-Mex was among nine railroads receiving a certificate of commendation for continuous improvement in safety performance.

New online features enhance security, empower customers

Now customers can add enhanced security and greater control to the benefits of doing business with KCSR via Electronic Data Interchange (EDI). This summer, KCSR will introduce two more web-enabled features to those currently available from the Online Transactions page of www.kcsi.com.

In 2003, KCSR introduced an online suite of tools called Customer Request.

These tools included:

- Release of empty cars;
- Constructive placed status car ordering;
- Release from hold status and add spotting instructions;
- Order in from a lease track to industry spot;
- Create a switch bill to move a car from lease track;
- Release load with no-bill status; and
- Interplant switching.

Online Customer Request empowers customers to more directly manage their shipment, ensures the accuracy of the request and increases the likelihood that the work will be performed to the customers' specifications because there is less human intervention.

This summer, KCSR will add a track and trace tool powered by information within the Management Control System (MCS). Before, customers could request a general inquiry, which would send a notification regarding a car's location to the customer multiple times a day by fax or email. Now, customers have more control with the ability to go to Online Transactions, which is available from any page

of www.kcsi.com, and track their shipment anytime of the day or night, as well as see how their shipment is performing in comparison to the current trip plan.

Also this summer, KCSR will enhance security by requiring an ID and password for the tracing of all rail cars on the system to comply with new Department of Homeland Security (DHS) regulations. Prior to now, KCSR had been in compliance with DHS and the National Industrial Transportation League by requiring an ID and password only on hazardous materials shipments.

At this time, more than 90 percent of KCSR customers are using EDI. The KCSR marketing and sales department will soon be contacting customers to increase that percentage even further, ensuring that all customers can take advantage of the enhanced security and tools available online. In the meantime, customers who do not already have an ID and password can register at http://www.kcsi.com/customer/cus_et.html. KCSR will validate all registrations.



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